City of Ann Arbor Employees' Retirement System

Annual Actuarial Valuation
as of June 30, 2026



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October 9, 2026

Retirement Board
City of Ann Arbor Employees' Retirement System
Ann Arbor, Michigan

Re: City of Ann Arbor Employees' Retirement System Actuarial Valuation as of June 30, 2026
Actuarial Disclosures

Dear Board Members:

The results of the June 30, 2026 Annual Actuarial Valuation of the City of Ann Arbor Employees' Retirement System are presented in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the System's funding progress and to determine the employer contribution rates for the fiscal year ending June 30, 2028. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The contribution rates in this report are determined using the actuarial assumptions and methods disclosed in Section C of this report. This report includes risk metrics in the appendix but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. This report also includes a discussion of the required Low-Default-Risk Obligation Measure (LDROM) on page Appendix-4. Additional assessment of risks was outside the scope of this assignment.

We have assessed that the contribution amount calculated under the current funding policy is a reasonable Actuarially Determined Contribution (ADC) and it is consistent with the plan accumulating adequate assets to make benefit payments when due.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through June 30, 2026. The valuation was based upon information furnished by the City, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the Plan Administrator.

This report was prepared using assumptions adopted by the Board. All actuarial assumptions used in this report are reasonable for the purposes of the valuation. The combined effect of the assumptions is expected to have no significant bias (i.e., not significantly optimistic or pessimistic). All actuarial assumptions and methods used for funding purposes in the valuation follow the guidance in the applicable Actuarial Standards of Practice. Additional information about the actuarial assumptions is included in Section C of this report.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the City of Ann Arbor Employees' Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

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

The signing actuaries are independent of the plan sponsor.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board of Trustees and to answer any questions that the Board may have pertaining to the valuation.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

James D. Anderson, FSA, EA, FCA, MAAA

Richard C. Koch Jr., FSA, EA, FCA, MAAA

Francois Pieterse, ASA, FCA, MAAA

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SECTION A

VALUATION RESULTS

Summary of Key Actuarial Valuation Results

Valuation Date	June 30, 2026	June 30, 2025
Summary of Member Data		
Number of Members Included in Valuation		
Active Members	796	769
Inactive Members (Deferred and Retirees & Beneficiaries)	1,316	1,307
Total	2,112	2,076
Annual Payroll (Average)	$ 88,610	$ 86,655
Annual Benefit Payments (Average)		
Inactive Members	$ 17,088	$ 16,559
Retirees and Beneficiaries	$ 39,259	$ 38,849
Summary of Assets		
Market Value	$733,322,818	$672,006,870
Market Value Rate of Return	12.91%	9.35%
Funding Value	$674,672,184	$648,228,246
Funding Value Rate of Return	7.91%	9.93%
Summary of Liabilities		
Total Actuarial Accrued Liability	$701,243,425	$689,012,179
Unfunded Actuarial Liability (UAL)	$ 26,571,241	$ 40,783,933
Funded Ratio	96.21%	94.08%
Employer Actuarially Determined Contribution (ADC)		
Total Normal Cost Rate	16.43%	16.72%
Employee Contribution Rate (weighted avg.)	4.90%	4.96%
Employer Normal Cost Rate	11.53%	11.76%
Amortization of UAL Rate	3.67%	5.74%
Total Employer ADC	15.20%	17.50%
Actual/Statutory Contribution Rate	22.10%	35.14%
Amortization Period (years)	15	16

Funding Objective

The funding objective of the Retirement System is to establish and receive contributions that will accumulate assets during each member's working years which, together with regular interest, will be sufficient to pay promised benefits after retirement.

Contribution Rates

The Retirement System is supported by member contributions, City contributions and investment income from Retirement System assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to:

(1) Cover the actuarial present value of benefits allocated to the current year by the actuarial cost methods described in Section C (the normal cost); and

(2) Finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (the unfunded actuarial accrued liability).

Computed contribution rates for the fiscal year ending June 30, 2028 are shown on page A-3.

The Actuarially Determined Contribution rates determined in this report are reasonable under Actuarial Standard of Practice (ASOP) No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, based on:

- The use of reasonable actuarial assumptions and cost methods;
- The use of reasonable amortization and asset valuation methods; and
- Application of the City of Ann Arbor Employees' Retirement System funding policy which will accumulate sufficient assets to make benefit payments when due, assuming all assumptions will be realized and Actuarially Determined Contribution rates are made when due.

Contributions to Provide Benefits Computed June 30, 2026 for Fiscal Year Ending June 30, 2028

Contributions for	General	General Hybrid	Police	Police Hybrid[3]	Fire	Fire Hybrid	Total[4]
Normal Cost of Benefits:							
1. Age & service	16.75 %	8.30 %	26.16 %	0.00 %	26.43 %	11.41 %	15.38 %
2. Disability	0.47 %	0.24 %	1.15 %	0.00 %	0.28 %	0.15 %	0.44 %
3. Death-in-service	0.31 %	0.12 %	0.28 %	0.00 %	0.34 %	0.00 %	0.22 %
4. Refunds of member contributions	0.53 %	0.41 %	0.27 %	0.00 %	0.18 %	0.22 %	0.39 %
5. Total normal cost	18.06 %	9.07 %	27.86 %	0.00 %	27.23 %	11.78 %	16.43 %
6. Member contributions (average)	6.01 %	3.24 %	7.00 %	0.00 %	6.50 %	3.00 %	4.90 %
7. Employer Normal Cost (5. - 6.)	12.05 %	5.83 %	20.86 %	0.00 %	20.73 %	8.78 %	11.53 %
8. Payment for Unfunded Actuarial Liabilities (UAL)[1]	$ 1,413,223	$ 54,213	$ 778,686	$ 0	$ 523,727	$ 684	$ 2,770,533
9. Payment for UAL as a Percentage of Projected Payroll	7.57 %	0.15 %	6.81 %	0.00 %	5.50 %	0.44 %	3.67 %
10. Projected Fiscal Year Payroll	$ 18,676,378	$ 35,768,979	$ 11,430,220	$ 0	$ 9,525,084	$ 156,832	$ 75,557,493
11. Preliminary Actuarially Determined Contribution (ADC) (7. * 10. + 8.)	**$ 3,663,727**	**$ 2,139,544**	**$ 3,163,030**	**$ 0**	**$ 2,498,277**	**$ 14,454**	**$ 11,479,032**
12. Preliminary ADC as a Percent of Projected Payroll	**19.62 %**	**5.98 %**	**27.67 %**	**0.00 %**	**26.23 %**	**9.22 %**	**15.20 %**
13. Prior Fiscal Year Budgeted Contribution[2]							**$ 12,737,718**
14. Prior Fiscal Year Budgeted Contribution with 2% Increase							**$ 12,992,472**
15. Estimated City Contribution (Greater of 11. & 14.)							**$ 12,992,472**

(1) *Amortized as a level dollar amount over a closed period of 15 years.*

(2) *Provided by the City.*

(3) *Reflects the elimination of the Police Deputy Chiefs Union*

(4) *Total Employer Normal Cost is a weighted average and applying this percentage to projected fiscal year payroll may not match the preliminary ADC due to rounding.*

All percents in the table above are expressed as a percent of active member payroll.

Determining Employer Dollar Contributions

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollars – and then promptly contributed to the Retirement System.

The recommended procedure is: (1) ***at the end of each payroll period, multiply the active member payroll for the period by the employer normal cost percent;*** (2) ***add the payment for unfunded actuarial liabilities divided by the number of payroll periods from (1);*** and (3) ***promptly contribute the dollar amount so determined***.

Present Value of Future Benefits and Accrued Liabilities

	June 30, 2026							June 30, 2025
	General	General Hybrid	Police	Police Hybrid[2]	Fire	Fire Hybrid	Total	Total
A. Accrued Liability								
1. For retirees and beneficiaries	$ 261,031,079	$ 0	$ 163,934,519	$ 0	$ 97,421,183	$ 0	$ 522,386,781	$ 514,425,958
2. For vested terminated members	9,773,823	0	3,075,372	0	$ 593,425	0	13,442,620	13,241,166
3. For present active members								
a. Value of expected future benefit payments	110,471,919	43,587,219	67,513,663	0	62,979,767	198,509	284,751,077	274,844,146
b. Value of future normal costs	23,579,167	29,865,520	37,432,019	0	28,434,991	25,356	119,337,053	113,499,091
c. Active member accrued liability: (a) - (b)	86,892,752	13,721,699	30,081,644	0	34,544,776	173,153	165,414,024	161,345,055
4. Total accrued liability	357,697,654	13,721,699	197,091,535	0	132,559,384	173,153	701,243,425	689,012,179
B. Present Assets (Funding Value)[1]	344,143,914	13,201,762	189,623,420	0	127,536,496	166,592	674,672,184	648,228,246
C. Unfunded Accrued Liability: (A.4) - (B)	13,553,740	519,937	7,468,115	0	5,022,888	6,561	26,571,241	40,783,933
D. Funding Ratio: (B) / (A.4)	96.2%	96.2%	96.2%	N/A	96.2%	96.2%	96.2%	94.1%

[1] *Funding Value of Assets was allocated to each group based on total accrued liability.*

[2] *Reflects the elimination of the Police Deputy Chiefs Union.*

Development of the Funding Value of Retirement System Assets
June 30, 2026

Valuation Date June 30:	2025	2026	2027	2028	2029	2030
A. Funding Value Beginning of Year (BOY)	$614,997,725	$648,228,246				
B. Market Value End of Year (EOY)	672,006,870	733,322,818				
C. Market Value BOY	639,923,210	672,006,870				
D. Audit Adjustment	0	0				
E. Non-Investment Net Cash Flow	(26,509,777)	(23,885,809)				
F. Investment Income						
1) Market Total: B-C-D-E	58,593,437	85,201,757				
2) Interest Rate	6.70%	6.70%	6.70%			
3) Amount for Immediate Recognition (F2 x (A + D + 0.5 x E))	40,316,770	42,631,118				
4) Amount for Phased-In Recognition F1 - F3	18,276,667	42,570,639				
G. Phased-In Recognition of Investment Income						
1) Current Year: 0.20 x F4	3,655,333	8,514,128				
2) First Prior Year	4,447,741	3,655,333	$ 8,514,128			
3) Second Prior Year	4,732,641	4,447,741	3,655,333	$ 8,514,128		
4) Third Prior Year	(13,651,213)	4,732,641	4,447,741	3,655,333	$ 8,514,128	
5) Fourth Prior Year	20,239,026	(13,651,214)	4,732,639	4,447,742	3,655,335	$8,514,127
6) Total Recognized Investment Gain	19,423,528	7,698,629	21,349,841	16,617,203	12,169,463	8,514,127
H. Funding Value EOY: A + D + E + F3 + G6	648,228,246	674,672,184				
I. Difference Between Market Value and Funding Value	23,778,624	58,650,634				
J. Net Funding Value Rate of Return	9.93%	7.91%				
K. Net Market Value Rate of Return	9.35%	12.91%				
L. Funding Value / Market Value	96.5%	92.0%				

The Funding Value of Assets recognizes assumed investment income (line F3) fully each year. Differences between actual and assumed investment income (line F4) are phased-in over a closed five-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than Market Value. The Funding Value of Assets is ***unbiased*** with respect to Market Value. At any time, it may be either greater or less than Market Value.

Historical Asset Rate of Return

Year Ending June 30	Actuarial Value Annual Recognized Rate of Return	Market Value Annual Recognized Rate of Return
2017	8.42%	11.96%
2018	6.96%	6.98%
2019	6.07%	6.21%
2020	6.02%	4.62%
2021	11.08%	27.19%
2022	7.42%	-5.11%
2023	8.16%	10.93%
2024	9.02%	10.27%
2025	9.93%	9.35%
2026	7.91%	12.91%

Derivation of Experience Gain (Loss)
Year Ended June 30, 2026

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often offset one another over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below:

	2025-2026	2024-2025
(1) UAAL[(1)] at start of year	$ 40,783,933	$ 64,625,206
(2) Normal cost from last valuation	11,286,434	10,732,319
(3) Actual contributions	24,746,764	22,105,681
(4) Interest	6.70%	6.70%
(5) Interest accrual: (1) x (4) + ((2) - (3)) x (4) / 2	2,281,602	3,948,881
(6) Expected UAAL before changes: (1) + (2) - (3) + (5)	29,605,205	57,200,725
(7) Change from revised actuarial assumptions	0	0
(8) Change from benefit changes	(55,672)	(24,060)
(9) Expected UAAL after changes: (6) + (7) + (8)	29,549,533	57,176,665
(10) Actual UAAL at end of year	26,571,241	40,783,933
(11) Gain (Loss): (9) - (10)	2,978,292	16,392,732
(12) Gain (Loss) as percent of actuarial accrued liabilities at start of year $(689,012,179)	0.4%	2.4%
(13) Gain (Loss) due to Liabilities	(4,720,337)	(3,030,796)
(14) Gain (Loss) due to Assets	$ 7,698,629	$ 19,423,528

(1) *Unfunded Actuarial Accrued Liability.*

Comments and Recommendation

Actuarial Experience: Aggregate experience during the year ending June 30, 2026 was more favorable than assumed, generating an overall experience gain of approximately $3.0 million as indicated on page A-7. The actuarial gain was approximately 0.4% of the beginning of year actuarial accrued liabilities, arising primarily from higher than assumed recognized investment return with respect to the funding value of assets. Partially offsetting the investment gains were losses due to retirees living longer than expected and the minimum benefits increasing by more than assumed. After reflecting the experience described above and the updates to the plan provisions noted in the following comment, computed contribution requirements decreased from the prior year from $12.5 million to $11.5 million. In addition, valuation assets represent 96.2% of accrued liabilities; last year the funded ratio was 94.1%. If the valuation results were based on market value of assets instead of smoothed funding value, the funded percent of the plan would be 104.6%.

Plan Provisions: The following plan provision changes were reported to the actuary in connection with this valuation:

- Policy Deputy Chiefs Union has been eliminated, at direction of the Retirement System, the sole member of this group is reported in the General Hybrid group this valuation.
- Police Command: Member contributions of 7.0% of annual compensation.
- Police Service Specialist: Member contributions of 7.0%; hired on/after 1/1/2018 3.50% of annual compensation.

Investment Experience: The investment return of 12.91% was higher than the assumed level of 6.70% on a market value basis. However, under the asset valuation method, investment gains and losses are spread over a five-year period. Partial recognition of this year's gain was combined with the continued phase-in of investment gains and losses from prior years resulting in a net recognized asset gain for 2026. The Market Value of Assets now exceeds the Funding Value by $58,650,634 (see page A-5), which is the net amount of unrecognized prior year gains and losses to be recognized over the coming four years.

Reserve Transfers: Reserve transfers between the active and retired life accounts are required whenever retired life liabilities differ from the Reserve for Retired Benefit Payments. If a reserve is maintained for the City of Ann Arbor, the Reserve for Retired Benefit Payments should be equal to $522,386,781 (the actuarial accrued liability for retired lives).

Michigan Public Act 202: Under Public Act 202 of the State of Michigan (PA 202), Michigan municipalities are required to report liabilities under uniform assumption guidelines. While the current guidelines are only for reporting purposes (and not funding), governments may be encouraged to use these assumptions for funding. The information needed to satisfy PA 202 reporting requirements is provided in the appendix of this report.

ASOP No. 51: Please see the appendix to this valuation for presentation of information related to Actuarial Standard of Practice ("ASOP") No. 51 entitled "Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions."

Actuarial Accrued Liabilities and Valuation Assets
Comparative Statement

Valuation Date	Actuarial Accrued Liability (AAL)	Funding Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of Present Assets to AAL	Ratio of UAAL to Valuation Payroll
2017	$ 571,074,000	$ 489,943,000	$ 81,131,000	85.8 %	151.4 %
2018[1],[2]	583,601,000	505,015,000	78,586,000	86.5 %	147.6 %
2019	601,108,981	513,611,366	87,497,615	85.4 %	158.3 %
2020[3]	614,077,223	520,439,737	93,637,486	84.8 %	166.6 %
2021[3]	627,144,090	554,096,977	73,047,113	88.4 %	132.7 %
2022[3]	652,441,776	570,654,330	81,787,446	87.5 %	142.8 %
2023[1],[4]	670,451,757	589,551,011	80,900,746	87.9 %	135.3 %
2024[4]	679,622,931	614,997,725	64,625,206	90.5 %	104.1 %
2025[4]	689,012,179	648,228,246	40,783,933	94.1 %	61.2 %
2026[4]	701,243,425	674,672,184	26,571,241	96.2 %	37.7 %

(1) *Actuarial assumptions revised.*
(2) *Valuation results for 2018 and prior years were calculated by the City's prior actuary.*
(3) *Reflects a change in the investment return assumption.*
(4) *Change in benefit provisions.*

The Ratio of Valuation Assets to AAL is a traditional measure of a system's funding progress. Except in years when the system is amended or actuarial assumptions are revised, this ratio can be expected to move gradually toward 100%.

The Ratio of UAAL to Valuation Payroll is another relative index of condition. Actuarial unfunded liabilities represent debt, while active member payroll represents the system's capacity to collect contributions to pay toward debt. The lower the ratio, the greater the financial strength – and vice versa.

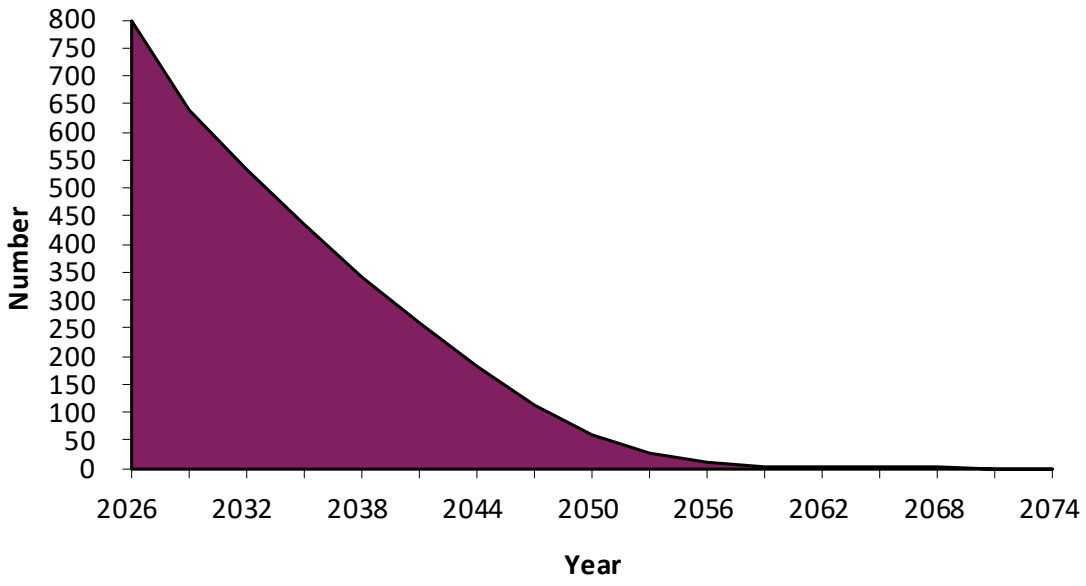
Solvency Test

	(1)	(2)	(3)				
	Actuarial Liabilities (in thousands)						
Valuation Date	Active Member Contributions	Inactive Members	Active Members (Employer-Financed Portion)	Valuation Assets (in thousands)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
2017	$ 3,325	$ 389,354	$ 178,395	$ 489,943	100.00%	100.00%	54.52%
2018[1]	3,185	413,119	170,478	505,015	100.00%	100.00%	52.04%
2019	3,085	423,401	174,623	513,611	100.00%	100.00%	49.89%
2020	3,103	433,954	177,020	520,440	100.00%	100.00%	47.10%
2021	2,989	453,466	170,689	554,097	100.00%	100.00%	57.20%
2022	3,013	487,141	162,288	570,654	100.00%	100.00%	49.60%
2023	3,108	510,217	157,127	589,551	100.00%	100.00%	48.51%
2024	3,169	523,052	153,402	614,998	100.00%	100.00%	57.87%
2025	3,391	527,667	157,954	648,228	100.00%	100.00%	74.18%
2026	3,538	535,829	161,876	674,672	100.00%	100.00%	83.59%

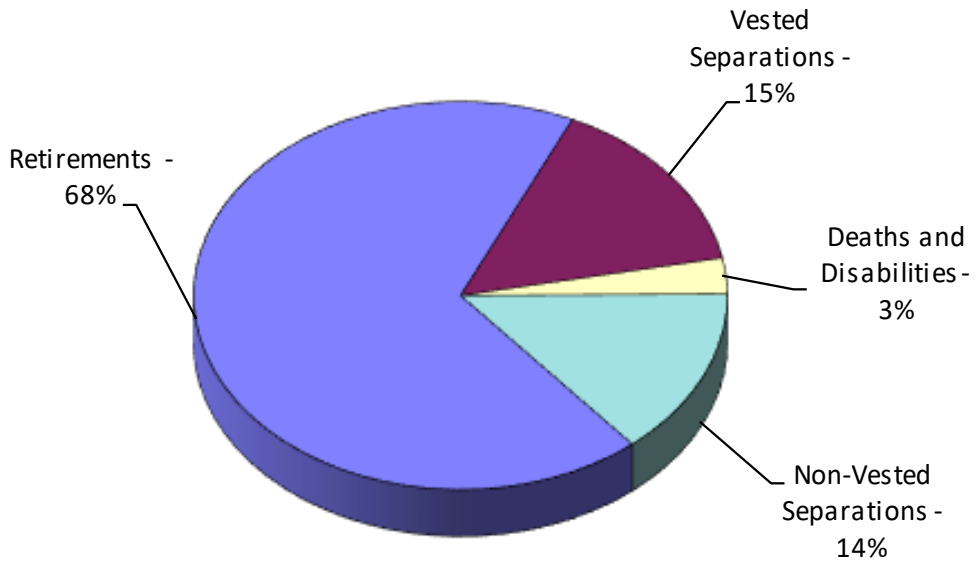
(1) *Valuation results for 2018 and prior years were calculated by the City's prior actuary.*

Expected Development of Present Population

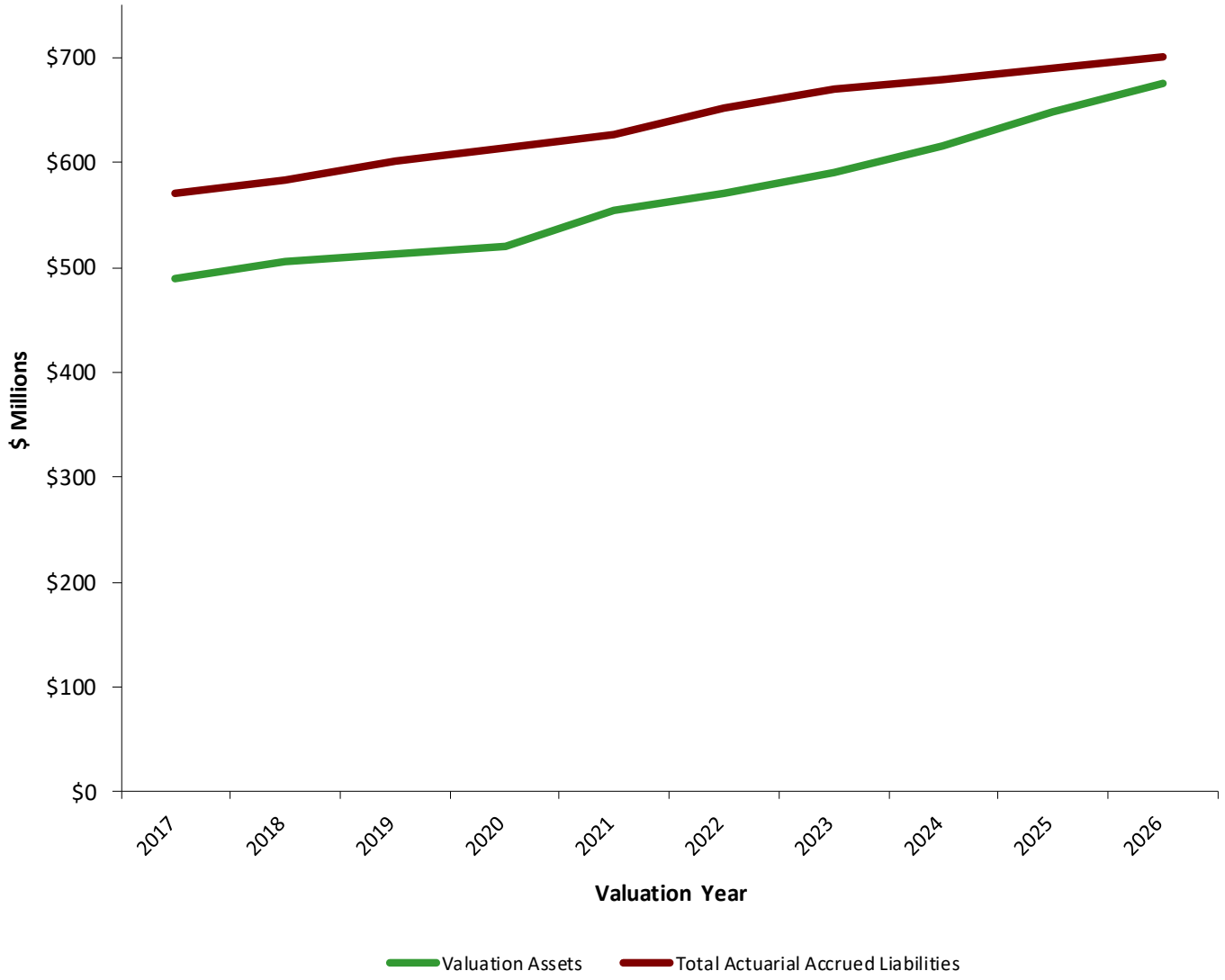
Closed Group Active Population Projection



Expected Terminations from Active Employment for Current Active Members



Assets and Accrued Liabilities



SECTION B

SUMMARY OF VALUATION DATA

Retirees and Beneficiaries Added to and Removed from Rolls
Comparative Schedule

Year Ended June 30	No. Added to Rolls	No. Removed from Rolls	Rolls End of Year	
			No.	Annual Allowances
2017	53	30	1,040	$ 34,825,341
2018	63	33	1,067	36,707,905
2019	49	35	1,081	37,768,548
2020	42	21	1,102	39,054,103
2021	48	29	1,121	40,414,900
2022	63	28	1,156	42,927,498
2023	46	25	1,177	44,697,810
2024	50	36	1,191	45,954,387
2025	45	31	1,205	46,813,080
2026	48	33	1,220	47,895,933

Retirees and Beneficiaries as of June 30, 2026
Tabulated by Attained Ages

Attained Ages	Age and Service No.	Age and Service Annual Allowances	Disability No.	Disability Annual Allowances	Total No.	Total Annual Allowances
Under 50	9	$ 659,273	1	$ 27,500	10	$ 686,773
50-54	57	3,313,510	1	9,357	58	3,322,867
55-59	122	6,744,307	1	6,655	123	6,750,962
60-64	157	7,183,621	1	15,280	158	7,198,901
65-69	228	8,429,367	4	75,019	232	8,504,386
70-74	226	8,393,462			226	8,393,462
75-79	190	6,797,195	2	49,747	192	6,846,942
80-84	132	3,987,092			132	3,987,092
85-89	54	1,361,240			54	1,361,240
90 & Over	35	843,308			35	843,308
Totals	**1,210**	**$ 47,712,375**	**10**	**$ 183,558**	**1,220**	**$ 47,895,933**

Inactive Members Eligible for Deferred Benefits as of June 30, 2026 Tabulated by Attained Ages

Attained Ages	No.	Annual Allowances
37	1	$ 6,624
38	2	36,167
39	1	16,686
42	1	20,331
43	1	20,375
44	1	3,388
45	3	53,223
46	5	59,731
47	4	76,938
48	4	108,486
49	4	115,816
50	6	82,758
51	6	92,725
52	3	53,982
53	2	7,057
54	8	137,546
55	8	111,493
56	8	146,418
57	6	155,320
58	9	162,056
59	5	66,444
61	6	89,254
62	1	2,767
71	1	14,842
Totals	**96**	**$1,640,427**

Retirees and Beneficiaries as of June 30, 2026
Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Allowances
General	790	$24,601,719
Police	254	14,146,016
Fire	176	9,148,198
Total	1,220	$47,895,933

Inactive Members Eligible for Deferred Benefits as of June 30, 2026
Tabulated by Valuation Divisions

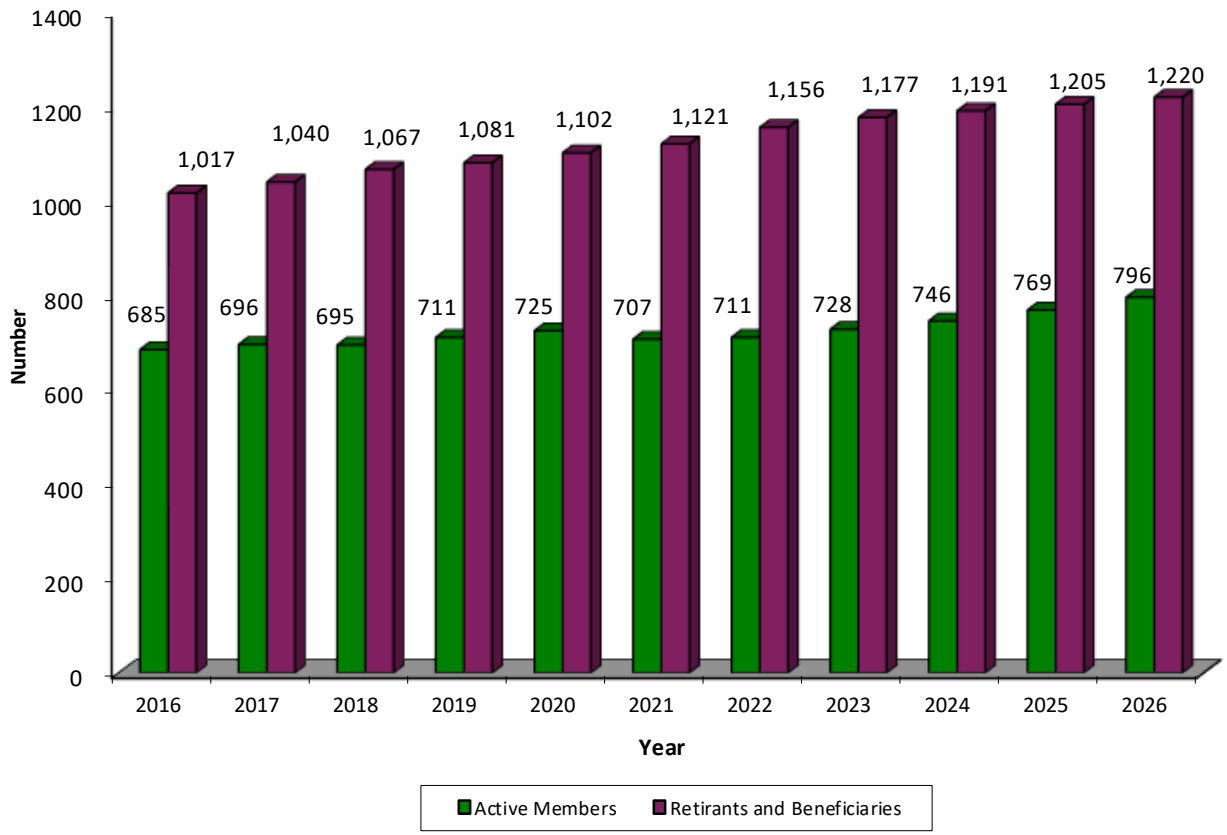
Valuation Divisions	No.	Estimated Annual Allowances
General	80	$1,204,927
Police	15	376,336
Fire	1	59,164
Total	96	$1,640,427

Active Members as of June 30, 2026
Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Payroll
General	209	$ 20,301,360
General Hybrid	413	30,523,964
Police	92	10,670,232
Police Hybrid	0	0
Fire	81	8,891,768
Fire Hybrid	1	146,404
Total Active Members	796	$ 70,533,728

The average accumulated contributions balance for active members is $57,667.

Active and Retired Members



General Members as of June 30, 2026
by Age and Years of Service

	Years of Service to Valuation Date							Totals	
Age	0-4	5-9	10-14	15-19	20-24	25-30	30 Plus	No.	Valuation Payroll
20-24	19							19	$ 1,006,940
25-29	74	6						80	5,049,091
30-34	45	15						60	4,131,066
35-39	44	20	16	1				81	6,230,575
40-44	37	26	15	5	1			84	7,263,600
45-49	29	22	27	9	10			97	8,492,543
50-54	21	21	19	11	11	9		92	8,507,897
55-59	16	11	8	13	5	4	5	62	5,859,545
60	3			1		2		6	550,944
61		1	2	1	2	1	1	8	707,633
62	1	2	2		2			7	722,793
63	2	2	1	1				6	538,066
64	2	1			1			4	377,545
65	1	2					1	4	292,339
66		3		1				4	335,154
67		1	1					2	234,853
68			3		1			4	305,181
70		1						1	134,792
72		1						1	84,767
Totals	**294**	**135**	**94**	**43**	**33**	**16**	**7**	**622**	**$ 50,825,324**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

	Non-Hybrid	Hybrid	Total
Count:	209	413	622
Age:	50.35	39.73	43.30
Service:	16.64	3.76	8.09
Annual Pay:	$97,136	$73,908	$81,713

Police Members as of June 30, 2026
by Age and Years of Service

	Years of Service to Valuation Date							Totals	
Age	0-4	5-9	10-14	15-19	20-24	25-30	30 Plus	No.	Valuation Payroll
20-24	1							1	$ 45,775
25-29	8	1						9	701,427
30-34	6	15						21	2,139,967
35-39	6	8	10					24	2,852,878
40-44	2	7	10		1			20	2,611,356
45-49	1	3	8		1			13	1,749,430
50-54					1	1		2	273,290
55-59					1			1	148,934
60		1						1	147,175
Totals	**24**	**35**	**28**		**4**	**1**		**92**	**$ 10,670,232**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

	Non-Hybrid	Hybrid	Total
Count:	92		92
Age:	37.83	N/A	37.83
Service:	8.51	N/A	8.51
Annual Pay:	$115,981		$115,981

Fire Members as of June 30, 2026
by Age and Years of Service

	Years of Service to Valuation Date							Totals	
Age	0-4	5-9	10-14	15-19	20-24	25-30	30 Plus	No.	Valuation Payroll
20-24	1							1	$ 67,025
25-29	6	3						9	697,129
30-34	8	6						14	1,439,190
35-39	7	10	1					18	1,901,646
40-44	4	6	3					13	1,370,858
45-49			2	1	1	2		6	740,595
50-54			1	2	6	3	1	13	1,700,690
55-59			1	2	1	1	2	7	974,635
61		1						1	146,404
Totals	**26**	**26**	**8**	**5**	**8**	**6**	**3**	**82**	**$ 9,038,172**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

	Non-Hybrid	Hybrid	Total
Count:	81	1	82
Age:	40.01	60.88	40.26
Service:	11.33	8.54	11.30
Annual Pay:	$109,775	$146,404	$110,222

Active Members Added to and Removed from Rolls

General Members

Year	No. Added During Year[2]	Terminations During the Year: Normal Retirement A	Normal Retirement E	Disabled A	Disabled E	Died-in-Service A	Died-in-Service E	Withdrawals: Vested A	Withdrawals: Other A[3]	Withdrawals: Total A	Withdrawals: Total E	Active Members End of Year
2022	86	23	21	0	1	0	1	5	44	49	21	532
2023[1]	81	21	18	0	1	0	0	4	32	36	29	556
2024	85	21	17	0	1	0	0	6	37	43	31	577
2025	83	20	17	0	0	1	0	6	37	43	33	596
2026	91	23	17	0	0	0	0	0	42	42	33	622
5-Year Total		**108**	**90**	**0**	**3**	**1**	**1**	**21**	**192**	**213**	**147**	

Police Members

Year	No. Added During Year[2]	Terminations During the Year: Normal Retirement A	Normal Retirement E	Disabled A	Disabled E	Died-in-Service A	Died-in-Service E	Withdrawals: Vested A	Withdrawals: Other A[3]	Withdrawals: Total A	Withdrawals: Total E	Active Members End of Year
2022	8	17	13	0	0	0	0	0	4	4	2	101
2023[1]	8	13	8	0	0	0	0	1	4	5	2	91
2024	9	7	5	0	0	0	0	1	1	2	2	91
2025	11	5	4	0	0	0	0	0	5	5	2	92
2026	5	3	3	0	0	0	0	0	2	2	2	92
5-Year Total		**45**	**33**	**0**	**0**	**0**	**0**	**2**	**16**	**18**	**10**	

Fire Members

Year	No. Added During Year[2]	Terminations During the Year: Normal Retirement A	Normal Retirement E	Disabled A	Disabled E	Died-in-Service A	Died-in-Service E	Withdrawals: Vested A	Withdrawals: Other A[3]	Withdrawals: Total A	Withdrawals: Total E	Active Members End of Year
2022	10	4	5	1	0	0	0	1	1	2	1	78
2023[1]	8	3	4	1	0	0	0	0	1	1	1	81
2024	4	7	4	0	0	0	0	0	0	0	1	78
2025	4	0	3	0	0	0	0	0	1	1	1	81
2026	3	2	4	0	0	0	0	0	0	0	1	82
5-Year Total		**16**	**20**	**2**	**0**	**0**	**0**	**1**	**3**	**4**	**5**	

A = Actual
E = Expected

[1] *Revised actuarial assumptions.*
[2] *Includes individuals transferring into a group.*
[3] *Includes individuals transferring out of a group.*

Summary of Current Asset Information

Balance Sheet

Valuation Assets	
Cash, receivables, accruals and other short-term	$ 17,854,174
Equity securities	476,656,765
Debit securities	121,801,709
Real Estate	61,949,758
Infrastructure	57,547,415
Other	1,699,301
Accounts payable	(4,186,304)
Funding value adjustment	(58,650,634)
Total Current Assets	$674,672,184

Revenues and Expenditures

	2025-2026	2024-2025
Balance - July 1	$672,006,870	$639,923,210
Audit Adjustment	0	0
Revenues		
Member contributions	3,666,088	3,484,608
Employer contributions	21,080,676	18,621,073
Recognized investment income	85,201,757	58,593,437
Total	109,948,521	80,699,118
Expenditures		
Benefit payments	47,221,910	46,249,405
Refund of member contributions	553,576	1,597,240
Administrative expenses	857,087	768,813
Total	48,632,573	48,615,458
Balance - June 30	$733,322,818	$672,006,870
Net investment income/mean assets	12.9%	9.3%

SECTION C

SUMMARY OF VALUATION METHODS, ASSUMPTIONS, AND BENEFIT PROVISIONS

Basic Financial Objective and Operation of the Retirement System

Benefit Promises Made Which Must Be Paid For. A retirement program is an orderly means of handing out, keeping track of, and financing contingent pension promises to a group of employees. As each member of the retirement program acquires a unit of service credit they are, in effect, handed an "IOU" which reads: "Your Retirement System promises to pay you one unit of retirement benefits, payments in cash commencing when you retire."

The principal related financial question is: When shall the money required to cover the "IOU" be contributed? This year, when the benefit of the member's service is received? Or, some future year when the "IOU" becomes a cash demand?

The Constitution of the State of Michigan is directed to the question:

> "Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities."

This Retirement System meets this constitutional requirement by having the following ***Financial Objective: To establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level*** from year-to-year and will not have to be increased for future generations of taxpayers.

Translated into actuarial terminology, a level percent-of-payroll contribution objective means that the contribution rate must be at least:

> ***Normal Cost*** (the current value of benefits likely to be paid on account of members' service being rendered in the current year)
>
> . . . plus . . .
>
> ***Interest on the Unfunded Actuarial Accrued Liability*** (the difference between the actuarial accrued liability and current system assets).

If contributions to the retirement program are less than the preceding amount, the difference, ***plus investment earnings not realized thereon***, will have to be contributed at some later time, or, benefits will have to be reduced, to satisfy the fundamental fiscal equation under which all retirement programs must operate; that is:

B = C + I - E

Benefit payments to any group of members and their beneficiaries cannot exceed the sum of:

Contributions received on behalf of the group

. . . plus . . .

Investment earnings on contributions received and not required for immediate payment of benefits

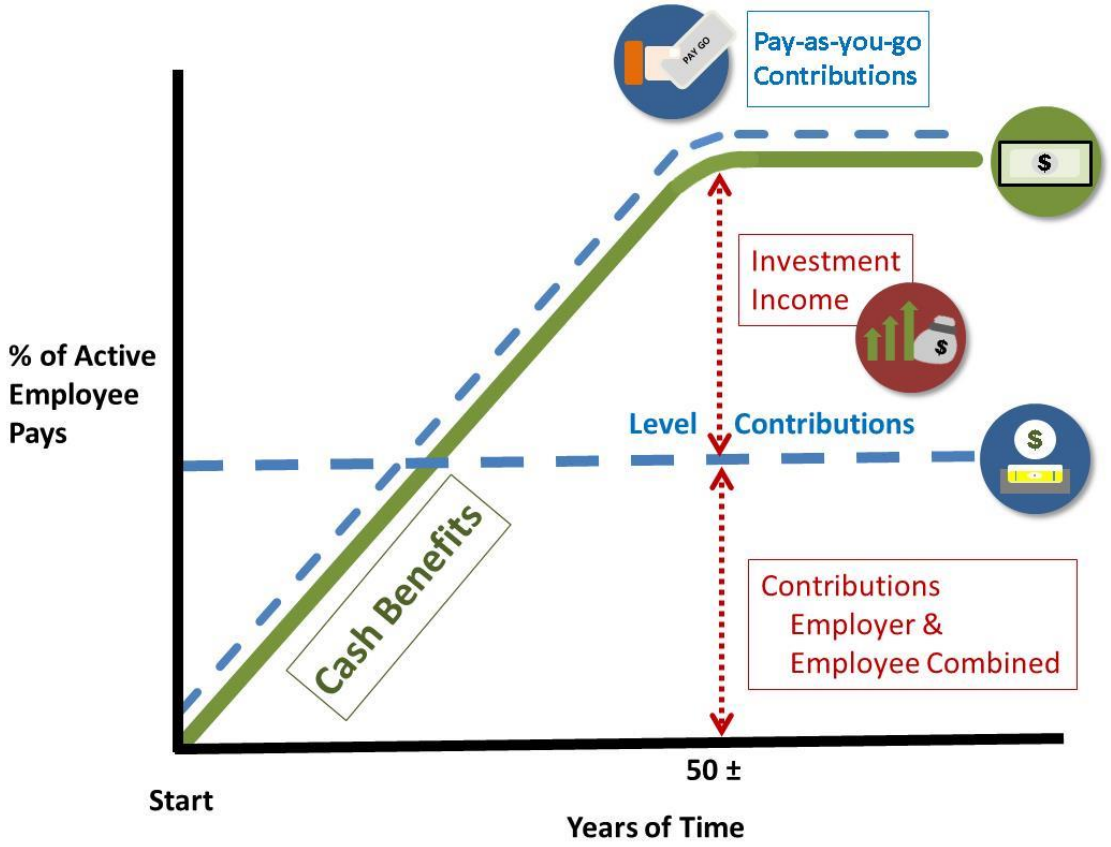
. . . minus . . .

Expenses incurred in operating the program.

There are retirement programs designed to defer the bulk of contributions far into the future. Lured by artificially low present contributions, the inevitable consequence is a relentlessly increasing contribution rate to a level greatly in excess of the level percent-of-payroll rate. ***This method of financing is prohibited in Michigan by the state constitution.***

A by-product of the level percent-of-payroll contribution objective is the accumulation of invested assets for varying periods of time. Invested assets are a by-product of level percent-of-payroll contributions, not the objective. ***Investment income becomes the major contributor*** to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

Computed Contribution Rate Needed to Finance Benefits. From a given schedule of benefits and from the data furnished him, the actuary calculates the contribution rate ***by means of an actuarial valuation*** - the technique of assigning monetary values to the risks assumed in operating a retirement program.

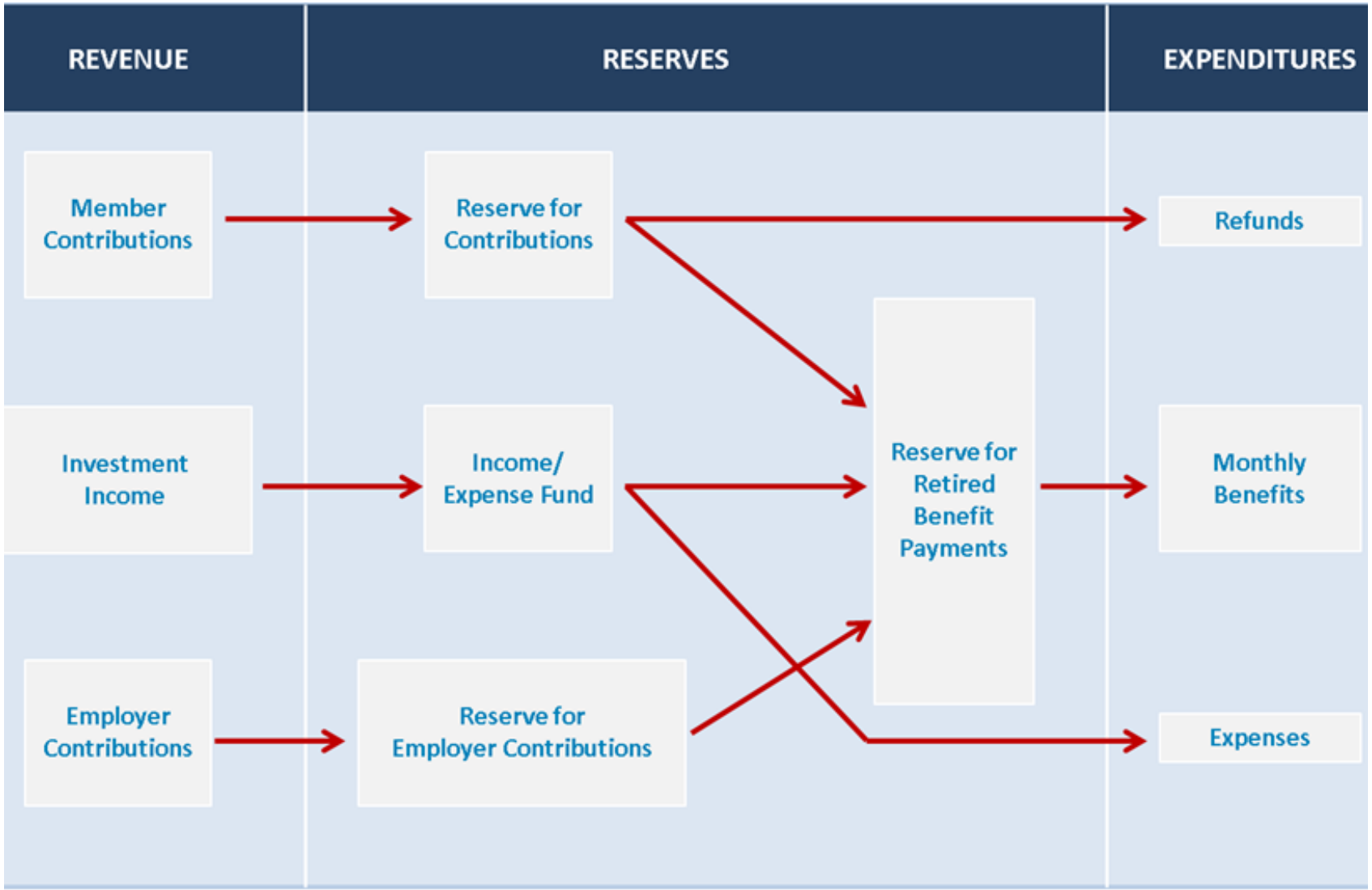


CASH BENEFITS LINE. This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

LEVEL CONTRIBUTION LINE. Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

- **Economic Risk Areas**
  - Rates of investment return
  - Rates of pay increase
  - Changes in active member group size
- **Non-Economic Risk Areas**
  - Ages at actual retirement
  - Rates of mortality
  - Rates of withdrawal of active members (turnover)
  - Rates of disability

Flow of Money Through the Retirement System



Actuarial Cost Methods

Normal Cost. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry-age actuarial cost method having the following characteristics:

(i) The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and

(ii) Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) are amortized by level dollar contributions.

The City of Ann Arbor Employees' Retirement System is funded by Employer and Member Contributions in accordance with the funding policy adopted by the Retirement Board, based on Actuarially Determined Contributions (ADC), which require contributions be sufficient to pay the Normal Costs of active plan members, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability over a declining period. Effective with the 2017 valuation, the Board approved a change to a level dollar amortization that decreases by one year in each year until a 15-year open amortization period is obtained. As a result of the Experience Study performed in 2023, the Board approved continuing the current amortization policy until the amortization period reaches 15 years, at which point layered amortization will be incorporated. Under this approach, the initial Unfunded Actuarial Accrued Liability (UAAL) will wind down until fully amortized. Any new UAAL created by gains/losses, assumption changes and/or plan changes will be amortized over a new, closed 15-year period.

Additionally, Section 1.3 of the City of Ann Arbor General Pension Policy allows for more than the Minimum Required policy as follows:

"The City of Ann Arbor will strive to achieve 100% funding of the City of Ann Arbor Employees' Retirement Plan. To the extent that 100% funding has been achieved, the City will continue to fund at a minimum the Normal Cost as defined by an outside actuary. To the extent that 100% funding had not been achieved, the City shall budget each fiscal year the higher of the ADC or the existing level of funding in the current budget year adjusted annually for the change in general fund budgeted revenues. In some years this may result in an excess contribution to the Pension Fund, which will serve to pay down the unfunded actuarial accrued liability and reduce future city cost increases."

Actuarial Assumptions

The actuary calculates the contribution requirements and benefit values by applying actuarial assumptions to the benefit provisions and census data furnished, using the actuarial cost methods described on the previous page.

The principal areas of financial risk which require assumptions about future experiences are:

- Long-term rates of investment return to be generated by system assets;
- Patterns of pay increases to members;
- Rates of mortality among members, retirees and beneficiaries;
- Rates of separation (withdrawal) from active membership;
- Rates of disability among active members; and
- The age patterns of actual retirement.

In a valuation, the actuary calculates the monetary effect of each assumption for as long as each covered person survives – a period of time which can be as long as a century.

Actual experience of the Fund will not coincide exactly with assumed experience, regardless of the quality of the assumptions, or the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it is appropriate to modify one or more of the assumptions to reflect experience trends (but not random year-to-year fluctuations). Actuarial assumptions were last revised for the June 30, 2023 valuation, based on an experience study dated May 11, 2023.

Investment Return (net of investment expenses):

Investment Return	6.70%
Wage Inflation	3.50%
Price Inflation	2.50%
Spread Between Investment Return and Wage Inflation	3.20%

The investment return assumption is used to equate the value of payments due at different points in time and was first used for the June 30, 2022 valuation.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefits will be based.

	% Increase in Salary at Sample Ages						
Sample	Merit and Seniority			Base	Increase Next Year		
Ages	General	Police	Fire	(Economic)	General	Police	Fire
20	4.10%	7.61%	7.33%	3.50%	7.60%	11.11%	10.83%
25	3.67%	6.70%	6.55%	3.50%	7.17%	10.20%	10.05%
30	2.89%	4.81%	4.88%	3.50%	6.39%	8.31%	8.38%
35	2.19%	3.41%	3.46%	3.50%	5.69%	6.91%	6.96%
40	1.89%	2.74%	2.71%	3.50%	5.39%	6.24%	6.21%
45	1.51%	2.42%	2.39%	3.50%	5.01%	5.92%	5.89%
50	1.00%	2.21%	2.19%	3.50%	4.50%	5.71%	5.69%
55	0.70%	2.07%	2.05%	3.50%	4.20%	5.57%	5.55%
60	0.51%	1.83%	1.91%	3.50%	4.01%	5.33%	5.41%

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

		% of Active Members Separating within Next Year			
Sample	Years of	General			
Ages	Service	Males	Females	Police	Fire
	1	13.00%	16.00%	6.00%	4.50%
	2	11.00%	13.00%	6.00%	4.00%
	3	7.00%	11.00%	4.00%	3.60%
	4	6.00%	8.00%	3.00%	3.60%
	5	5.00%	6.00%	2.50%	3.60%
25	6 & Over	3.20%	4.50%	2.40%	1.40%
30		3.20%	4.50%	2.40%	1.10%
35		3.25%	3.50%	1.75%	0.90%
40		3.25%	3.50%	0.74%	1.00%
45		3.25%	3.50%	0.48%	0.90%
50		3.25%	3.50%	0.48%	0.50%
55		3.25%	3.50%	0.48%	0.50%
60		3.25%	3.50%	0.48%	0.50%
65		3.25%	3.50%	0.48%	0.50%

The mortality tables used are as follows:

General

- **Healthy Pre-Retirement:** Pub-2010 General Employee Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

- **Healthy Post-Retirement:** Pub-2010 General Healthy Retiree Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

- **Disability Retirement:** Pub-2010 Non-Safety Disabled Retiree Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

General

Sample Attained Ages	Healthy Pre-Retirement Future Life Expectancy (Years)[1]		Healthy Post-Retirement Future Life Expectancy (Years)[1]		Disabled Retirement Future Life Expectancy (Years)[1]	
	Men	Women	Men	Women	Men	Women
55	34.32	36.36	30.89	33.71	23.15	26.01
60	29.41	31.33	26.16	28.83	19.95	22.64
65	24.63	26.39	21.63	24.07	16.95	19.29
70	19.96	21.54	17.33	19.51	14.07	15.86
75	15.40	16.82	13.37	15.24	11.27	12.54
80	10.96	12.24	9.86	11.39	8.66	9.56

[1] *Based on attained ages in 2026. Future years will reflect improvements in life expectancy.*

Police and Fire

- **Healthy Pre-Retirement:** Pub-2010 Safety Employee Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

- **Healthy Post-Retirement:** Pub-2010 Safety Healthy Retiree Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

- **Disability Retirement:** Pub-2010 Safety Disabled Retiree Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

Police and Fire

Sample Attained Ages	Healthy Pre-Retirement Future Life Expectancy (Years)[1]		Healthy Post-Retirement Future Life Expectancy (Years)[1]		Disabled Retirement Future Life Expectancy (Years)[1]	
	Men	Women	Men	Women	Men	Women
55	33.63	36.03	30.76	32.74	29.58	31.73
60	28.62	30.98	25.86	27.82	24.88	27.08
65	23.73	25.98	21.23	23.14	20.48	22.69
70	19.00	21.05	16.91	18.72	16.40	18.52
75	14.50	16.30	12.96	14.62	12.64	14.59
80	10.30	11.83	9.51	10.98	9.39	10.98

[1] *Based on attained ages in 2026. Future years will reflect improvements in life expectancy.*

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Retirement	General		Police		Fire		Retirement		
Ages	Normal	Early	Normal	Early	Normal	Early	Service	Police	Fire
50	25%	10%		10%		10%	25	50%	25%
51	25%	10%		10%		10%	26	50%	25%
52	25%	10%		10%		10%	27	50%	25%
53	25%	10%		10%		10%	28	50%	25%
54	25%	10%		10%		10%	29	50%	25%
55	25%	10%	50%		25%		30	50%	25%
56	25%	10%	50%		25%		31	50%	25%
57	25%	10%	50%		25%		32	50%	25%
58	25%	10%	50%		25%		33	50%	25%
59	25%	10%	50%		25%		34	50%	25%
60	25%		100%		100%		35	100%	100%
61	25%								
62	25%								
63	25%								
64	25%								
65	60%								
66	40%								
67	40%								
68	40%								
69	40%								
70	100%								

Rates of disability among active members.

Sample	% Becoming Disabled within Next Year		
Ages	General	Police	Fire
20	0.04%	0.08%	0.02%
25	0.04%	0.08%	0.02%
30	0.04%	0.08%	0.02%
35	0.04%	0.08%	0.02%
40	0.07%	0.14%	0.03%
45	0.16%	0.32%	0.08%
50	0.28%	0.56%	0.14%
55	0.43%	0.86%	0.22%
60	0.57%	1.14%	0.29%
65	0.66%	1.32%	0.33%

For General members, 75% of the disabilities are assumed to be non-duty and 25% of the disabilities are assumed to be duty related. For Police/Fire members, 50% of the disabilities are assumed to be non-duty and 50% of the disabilities are assumed to be duty related.

Miscellaneous and Technical Assumptions
June 30, 2026

Benefit Service:	Exact Fractional service is used to determine the amount of benefit payable.
Decrement Operation:	Disability and mortality decrements do not operate during the first five years of service. Disability also does not operate during normal retirement eligibility.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed dollar amount shown in this report.
Liability Adjustments:	None.
Minimum Benefit Adjustments:	Benefit amounts for members impacted by the minimum benefit provision pursuant to Section 1:574(1) of Chapter 18, Employees' Retirement System of the City of Ann Arbor Code of Ordinances were assumed to increase 2.0% per year.
Normal Form of Benefit:	A straight life benefit is the normal form of benefit.
Pay Adjustments:	For any active members who were on a leave of absence during the year, the prior year valuation pay was used. Additionally, any new hires provided without pay were assumed to have a salary equal to the average pay of the new hires within the same employment group.
Pay Increase Timing:	Middle of (Fiscal) year.
Service Credit Accruals:	It is assumed that members accrue one year of service credit per year.

City of Ann Arbor Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated
June 30, 2026

Regular Retirement (no reduction factor for age):

Union	5 Year Vesting 3 Year / 36 Mo FAC[1]	10 Year Vesting 5 Year / 60 Mo FAC[2]	Eligibility	Annual Amount
Non-Union	Hired before July 1, 2011	Hired on/after July 1, 2011	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2017: 2.5% of FAC times total years of service Hired after 1/1/2017: 1.25% of FAC times total years of service
American Federation of State, County, and Municipal Employees, AFL CIO (AFSCME)	Hired on/before August 29, 2011	Hired after August 29, 2011	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2017: 2.5% of FAC times total years of service Hired after 1/1/2017: 1.25% of FAC times total years of service
Technical Professional and Office Workers Assocation of Michigan (TPOAM)	Hired on/before August 29, 2011	Hired after August 29, 2011	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2017: 2.5% of FAC times total years of service Hired after 1/1/2017: 1.25% of FAC times total years of service
Ann Arbor Police Officers Association (AAPOA)[3]	Hired before January 1, 2012	Hired on/after January 1, 2012	25 years of service or Age 55 and vested	2.75% of FAC times total years of service Maximum benefit shall not exceed 80% of FAC
International Association of Fire Fighters (IAFF)	Hired before July 1, 2012	Hired on/after July 1, 2012	25 years of service or Age 55 and vested	2.75% of FAC times total years of service
Teamsters Fire Assistant Chief	Hired before January 1, 2016	Hired on/after January 1, 2016	25 years of service or Age 55 and vested	Hired before 1/1/2017: 2.75% of FAC times total years of service Hired after 1/1/2017: 1.375% of FAC times total years of service
Teamsters Civilian Supervisiors	Hired before July 2, 2012	Hired on/after July 2, 2012	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2017: 2.5% of FAC times total years of service Hired after 1/1/2017: 1.25% of FAC times total years of service
Teamsters Police Professional Assistants	Hired before July 2, 2012	Hired on/after July 2, 2012	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2018: 2.5% of FAC times total years of service Hired after 1/1/2018: 1.25% of FAC times total years of service
Police Service Specialists	Hired before July 1, 2013	Hired on/after July 1, 2013	Age 50 with 25 years of service or Age 60 and vested	Hired before 1/1/2018: 2.5% of FAC times total years of service Hired after 1/1/2018: 1.25% of FAC times total years of service
Command Officers Association of Michigan (COAM)	Hired before July 1, 2013	Hired on/after July 1, 2013	25 years of service or Age 55 and vested	2.75% of FAC times total years of service

[1] *Highest 3 consecutive calendar years out of last 10 or the last 36 months for members with 5 year vesting.*

[2] *Highest 5 consecutive calendar years out of last 10 or the last 60 months for members with 10 year vesting.*

[3] *Maximum benefit shall not exceed 80% of FAC.*

Annuity Withdrawal - Upon regular retirement, a member may elect to withdraw his or her accumulated contributions. If this lump sum election is made, the retirement allowance is reduced by the actuarial equivalent of the amount withdrawn.

City of Ann Arbor Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated
June 30, 2026

Early Retirement (reduction factor for age):

Eligibility - *All Members:* Age 50 with 20 or more years of service.

Benefit - Computed as a regular retirement but the pension portion of the allowance is reduced by 0.33% for each month by which retirement precedes normal retirement eligibility.

Deferred Retirement (vested benefit):

Eligibility - Must be vested. Refer to table on page C-12.

Annual Amount - Computed as regular retirement but based upon service and final average compensation at time of termination. Benefit begins at age 60. A member may elect to receive all or a portion of his/her accumulated contributions at termination if the member's age plus service total at least 50 and receive a lesser benefit at age 60.

Duty Disability Retirement:

Eligibility - No age or service requirement.

Annual Amount - *Police/Fire:* Computed as a regular retirement. Minimum benefit is 25% of FAC. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

All Others: Computed as a regular retirement. Minimum to age 60 is 18% of FAC. Minimum after age 60 is the sum of a) 12% of the portion of FAC not in excess of Social Security base plus b) 18% of FAC in excess of Social Security base. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

Non-Duty Disability Retirement:

Eligibility - Must be vested. Refer to table on page C-12.

Annual Amount - *Police/Fire:* Computed as a regular retirement. Minimum benefit is 25% of FAC.

All Others: Computed as a regular retirement. Minimum to age 60 is 18% of FAC. Minimum after age 60 is the sum of a) 12% of the portion of FAC not in excess of Social Security base plus b) 18% of FAC in excess of Social Security base.

City of Ann Arbor Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated
June 30, 2026

Duty Death Before Retirement:

Eligibility - No age or service requirements.

Annual Amount - Computed as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If the member had less than 25 years of service at time of death, a minimum of 25 years of service will be used to compute the benefits. Worker's compensation payments made to the member's beneficiary will offset the benefits paid by the Retirement System. Upon termination of worker's compensation payments the amount paid to the beneficiary will be the greater of the annual worker's compensation payment and the computed 100% joint and survivor retirement benefit.

Non-Duty Death Before Retirement:

Eligibility - Must be vested. Refer to table on page C-12.

Annual Amount - Computed as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If there is no named beneficiary, a lump sum will be payable to the estate.

Post-Retirement Increases:

Subject to Ordinance provisions, adjustments may be made every July 1 to retirees and beneficiaries on the rolls at least 12 months. Adjustments are funded by financial gains and are not guaranteed.

Member Contributions:

AFSCME, Non-Union and Teamsters hired on/after 1/1/2017, Assistant Fire Chiefs hired on/after 1/1/2017, Police Professional Assistants hired on/after 01/01/2018 and TPOAM: 3.0% of annual compensation.

Police Service Specialist: 7.0%; hired on/after 01/01/2018: 3.50% of annual compensation.

Fire: 6.5% of annual compensation.

AAPOA and COAM: 7.0% of annual compensation.

All Others: 6.0% of annual compensation.

Glossary

Actuarial Accrued Liability	The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."
Accrued Service	The service credited under the plan which was rendered before the date of the actuarial valuation.
Actuarial Assumptions	Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."
Actuarial Equivalent	A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.
Actuarial Present Value	The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.
Amortization	Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.
Experience Gain (Loss)	A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

Glossary

Normal Cost	The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.
Plan Termination Liability	The actuarial present value of future plan benefits based on the assumption that there will be no further accruals for the future service and salary. The termination liability will generally be less than the liabilities computed on a "going-concern" basis and is not normally determined in a routine actuarial valuation.
Reserve Account	An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.
Unfunded Actuarial Accrued Liability	The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."
Valuation Assets	The value of current plan assets recognized for valuation purposes. Generally related to market value in a manner which spreads unexpected gains or losses over a period of future years.

SECTION D

PROJECTIONS

Projection Assumptions and Methods

For purposes of the funding projection, the following assumptions were used:

- 6.70% discount rate for determining liability.
- The Actuarial Value of Assets reflects the deferred gains and losses generated by the smoothing method. The current deferred amounts are recognized in the first four years of the projections.
- Actuarial assumptions and methods as described in Section C. All future demographic experience is assumed to be exactly realized.
- The actuarially calculated contribution rate is determined as a percent of total payroll and contributed each year.
- Projections assume a 0% increase in the total active member population. All new future members are expected to enter the plan upon date of hire, under applicable plan provisions.
- The projections are based on the impact of the Minimum Required Policy.
- The projections were developed utilizing the GRS Foresight™ modelling tool.
- For the Sensitivity Analysis, all assumptions and methods are the same except investment returns on the Fair Value of Assets are assumed as follows:

Base:	6.70% for all future years
Optimistic:	7.70% for all future years
Pessimistic:	5.70% for all future years

Projected Actuarial Results – Base
Assumes 6.70% Returns in Future Years

Valuation as of June 30,	Employee Contributions	Employer Contributions	Total Contributions	Benefit Payments	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Fiscal Year Ending June 30,	Actuarially Determined Contribution	Estimated Funding Plan Contribution
(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7)	(8) = (6) / (7)	(9) = (7) - (6)	(10)	(11)	(12)
2026	$ 3,666,088	$ 21,080,676	$ 24,746,764	$ 47,775,486	$ 674,672,184	$ 701,243,425	96.2%	$ 26,571,241	2028	$ 11,479,032	$ 12,992,472
2027	3,674,029	12,737,718	16,411,747	48,963,830	707,482,604	710,038,798	99.6%	2,556,194	2029	9,455,646	13,252,321
2028	3,709,873	12,992,472	16,702,345	49,916,574	737,616,309	718,872,953	102.6%	(18,743,356)	2030	9,453,686	9,453,686
2029	3,839,718	13,252,321	17,092,039	50,762,804	765,187,206	727,938,315	105.1%	(37,248,891)	2031	9,696,499	9,696,499
2030	3,925,545	9,453,686	13,379,231	51,485,722	786,540,740	737,397,982	106.7%	(49,142,758)	2032	9,939,382	9,939,382
2031	4,029,430	9,696,499	13,725,929	52,142,826	800,538,047	747,155,260	107.1%	(53,382,787)	2033	10,202,629	10,202,629
2032	4,127,109	9,939,382	14,066,491	52,788,532	814,397,815	757,261,242	107.5%	(57,136,572)	2034	10,494,002	10,494,002
2033	4,235,662	10,202,629	14,438,291	53,293,123	828,519,528	767,899,456	107.9%	(60,620,072)	2035	10,785,913	10,785,913
2034	4,346,758	10,494,002	14,840,761	53,685,818	843,265,043	779,261,825	108.2%	(64,003,219)	2036	11,082,252	11,082,252
2035	4,460,443	10,785,913	15,246,356	54,176,121	858,738,046	791,299,315	108.5%	(67,438,731)	2037	11,391,898	11,391,898
2036	4,576,760	11,082,252	15,659,012	54,647,430	875,140,118	804,084,124	108.8%	(71,055,994)	2038	11,696,802	11,696,802
2037	4,695,756	11,391,898	16,087,654	55,330,171	892,353,042	817,464,478	109.2%	(74,888,563)	2039	12,009,848	12,009,848
2038	4,817,475	11,696,802	16,514,277	56,316,143	910,128,800	831,165,023	109.5%	(78,963,777)	2040	12,337,584	12,337,584
2039	4,952,993	12,009,848	16,962,841	57,236,890	928,602,271	845,285,906	109.9%	(83,316,365)	2041	12,680,321	12,680,321
2040	5,092,096	12,337,584	17,429,680	58,143,005	947,857,382	859,900,331	110.2%	(87,957,050)	2042	13,045,495	13,045,495
2041	5,223,052	12,680,321	17,903,373	59,076,802	967,926,071	875,032,100	110.6%	(92,893,971)	2043	13,419,203	13,419,203
2042	5,381,398	13,045,495	18,426,893	60,017,608	988,907,654	890,723,100	111.0%	(98,184,554)	2044	13,822,092	13,822,092
2043	5,544,430	13,419,203	18,963,633	60,978,709	1,010,856,236	907,027,936	111.4%	(103,828,300)	2045	14,194,683	14,194,683
2044	5,712,282	13,822,092	19,534,374	62,123,801	1,033,681,698	923,832,831	111.9%	(109,848,867)	2046	14,585,517	14,585,517
2045	5,871,531	14,194,683	20,066,215	63,531,193	1,057,131,546	940,874,201	112.4%	(116,257,345)	2047	14,995,696	14,995,696
2046	6,063,000	14,585,517	20,648,517	64,896,587	1,081,343,193	958,220,920	112.8%	(123,122,273)	2048	15,478,454	15,478,454
2047	6,260,679	14,995,696	21,256,376	65,995,051	1,106,669,973	976,223,602	113.4%	(130,446,371)	2049	15,982,449	15,982,449
2048	6,479,803	15,478,454	21,958,257	66,930,627	1,133,452,120	995,176,063	113.9%	(138,276,057)	2050	16,530,430	16,530,430
2049	6,706,596	15,982,449	22,689,045	67,941,672	1,161,739,024	1,015,108,845	114.4%	(146,630,179)	2051	17,111,027	17,111,027
2050	6,941,327	16,530,430	23,471,757	68,980,496	1,191,656,458	1,036,112,570	115.0%	(155,543,887)	2052	17,722,498	17,722,498

Section 1.3 of the City of Ann Arbor General Pension Policy states:

"The City of Ann Arbor will strive to achieve 100% funding of the City of Ann Arbor Employees' Retirement Plan. To the extent that 100% funding has been achieved, the City will continue to fund at a minimum the Normal Cost as defined by an outside actuary. To the extent that 100% funding had not been achieved, the City shall budget each fiscal year the higher of the ADC or the existing level of funding in the current budget year adjusted annually for the change in general fund budgeted revenues. In some years this may result in an excess contribution to the Pension Fund, which will serve to pay down the unfunded actuarial accrued liability and reduce future city cost increases."

Projected Actuarial Results – Optimistic
Assumes 7.70% Returns in Future Years

Valuation as of June 30,	Employee Contributions	Employer Contributions	Total Contributions	Benefit Payments	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Fiscal Year Ending June 30,	Actuarially Determined Contribution	Estimated Funding Plan Contribution
(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7)	(8) = (6) / (7)	(9) = (7) - (6)	(10)	(11)	(12)
2026	$ 3,666,088	$ 21,080,676	$ 24,746,764	$ 47,775,486	$ 674,672,184	$ 701,243,425	96.2%	$ 26,571,241	2028	$ 11,479,032	$ 12,992,472
2027	3,674,029	12,737,718	16,411,747	48,963,830	708,915,840	710,038,798	99.8%	1,122,958	2029	9,306,178	13,252,321
2028	3,709,873	12,992,472	16,702,345	49,916,574	742,131,746	718,872,953	103.2%	(23,258,793)	2030	9,453,686	9,453,686
2029	3,839,718	13,252,321	17,092,039	50,762,804	774,653,380	727,938,315	106.4%	(46,715,065)	2031	9,696,499	9,696,499
2030	3,925,545	9,453,686	13,379,231	51,485,722	803,044,091	737,397,982	108.9%	(65,646,109)	2032	9,939,382	9,939,382
2031	4,029,430	9,696,499	13,725,929	52,142,826	826,378,827	747,155,260	110.6%	(79,223,567)	2033	10,202,629	10,202,629
2032	4,127,109	9,939,382	14,066,491	52,788,532	850,654,269	757,261,242	112.3%	(93,393,027)	2034	10,494,002	10,494,002
2033	4,235,662	10,202,629	14,438,291	53,293,123	876,280,339	767,899,456	114.1%	(108,380,883)	2035	10,785,913	10,785,913
2034	4,346,758	10,494,002	14,840,761	53,685,818	903,642,840	779,261,825	116.0%	(124,381,015)	2036	11,082,252	11,082,252
2035	4,460,443	10,785,913	15,246,356	54,176,121	932,890,732	791,299,315	117.9%	(141,591,417)	2037	11,391,898	11,391,898
2036	4,576,760	11,082,252	15,659,012	54,647,430	964,296,772	804,084,124	119.9%	(160,212,649)	2038	11,696,802	11,696,802
2037	4,695,756	11,391,898	16,087,654	55,330,171	997,840,291	817,464,478	122.1%	(180,375,812)	2039	12,009,848	12,009,848
2038	4,817,475	11,696,802	16,514,277	56,316,143	1,033,381,208	831,165,023	124.3%	(202,216,186)	2040	12,337,584	12,337,584
2039	4,952,993	12,009,848	16,962,841	57,236,890	1,071,172,151	845,285,906	126.7%	(225,886,245)	2041	12,680,321	12,680,321
2040	5,092,096	12,337,584	17,429,680	58,143,005	1,111,424,609	859,900,331	129.3%	(251,524,277)	2042	13,045,495	13,045,495
2041	5,223,052	12,680,321	17,903,373	59,076,802	1,154,308,116	875,032,100	131.9%	(279,276,016)	2043	13,419,203	13,419,203
2042	5,381,398	13,045,495	18,426,893	60,017,608	1,200,070,221	890,723,100	134.7%	(309,347,121)	2044	13,822,092	13,822,092
2043	5,544,430	13,419,203	18,963,633	60,978,709	1,248,925,189	907,027,936	137.7%	(341,897,253)	2045	14,194,683	14,194,683
2044	5,712,282	13,822,092	19,534,374	62,123,801	1,300,955,985	923,832,831	140.8%	(377,123,154)	2046	14,585,517	14,585,517
2045	5,871,531	14,194,683	20,066,215	63,531,193	1,356,096,598	940,874,201	144.1%	(415,222,397)	2047	14,995,696	14,995,696
2046	6,063,000	14,585,517	20,648,517	64,896,587	1,414,685,121	958,220,920	147.6%	(456,464,201)	2048	15,478,454	15,478,454
2047	6,260,679	14,995,696	21,256,376	65,995,051	1,477,291,181	976,223,602	151.3%	(501,067,579)	2049	15,982,449	15,982,449
2048	6,479,803	15,478,454	21,958,257	66,930,627	1,544,488,639	995,176,063	155.2%	(549,312,577)	2050	16,530,430	16,530,430
2049	6,706,596	15,982,449	22,689,045	67,941,672	1,616,579,622	1,015,108,845	159.3%	(601,470,778)	2051	17,111,027	17,111,027
2050	6,941,327	16,530,430	23,471,757	68,980,496	1,693,963,770	1,036,112,570	163.5%	(657,851,200)	2052	17,722,498	17,722,498

Section 1.3 of the City of Ann Arbor General Pension Policy states:

"The City of Ann Arbor will strive to achieve 100% funding of the City of Ann Arbor Employees' Retirement Plan. To the extent that 100% funding has been achieved, the City will continue to fund at a minimum the Normal Cost as defined by an outside actuary. To the extent that 100% funding had not been achieved, the City shall budget each fiscal year the higher of the ADC or the existing level of funding in the current budget year adjusted annually for the change in general fund budgeted revenues. In some years this may result in an excess contribution to the Pension Fund, which will serve to pay down the unfunded actuarial accrued liability and reduce future city cost increases."

Projected Actuarial Results – Pessimistic
Assumes 5.70% Returns in Future Years

Valuation as of June 30,	Employee Contributions	Employer Contributions	Total Contributions	Benefit Payments	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Fiscal Year Ending June 30,	Actuarially Determined Contribution	Estimated Funding Plan Contribution
(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7)	(8) = (6) / (7)	(9) = (7) - (6)	(10)	(11)	(12)
2026	$ 3,666,088	$ 21,080,676	$ 24,746,764	$ 47,775,486	$ 674,672,184	$ 701,243,425	96.2%	$ 26,571,241	2028	$ 11,479,032	$ 12,992,472
2027	3,674,029	12,737,718	16,411,747	48,963,830	706,049,367	710,038,798	99.4%	3,989,431	2029	9,605,113	13,252,321
2028	3,709,873	12,992,472	16,702,345	49,916,574	733,129,538	718,872,953	102.0%	(14,256,585)	2030	9,453,686	9,453,686
2029	3,839,718	13,252,321	17,092,039	50,762,804	755,841,639	727,938,315	103.8%	(27,903,324)	2031	9,696,499	9,696,499
2030	3,925,545	9,453,686	13,379,231	51,485,722	770,354,194	737,397,982	104.5%	(32,956,213)	2032	9,939,382	9,939,382
2031	4,029,430	9,696,499	13,725,929	52,142,826	775,362,198	747,155,260	103.8%	(28,206,938)	2033	10,202,629	10,202,629
2032	4,127,109	9,939,382	14,066,491	52,788,532	779,361,007	757,261,242	102.9%	(22,099,765)	2034	10,494,002	10,494,002
2033	4,235,662	10,202,629	14,438,291	53,293,123	782,773,014	767,899,456	101.9%	(14,873,558)	2035	10,785,913	10,785,913
2034	4,346,758	10,494,002	14,840,761	53,685,818	785,971,574	779,261,825	100.9%	(6,709,749)	2036	11,082,252	11,082,252
2035	4,460,443	10,785,913	15,246,356	54,176,121	789,053,049	791,299,315	99.7%	2,246,266	2037	11,030,812	11,303,897
2036	4,576,760	11,082,252	15,659,012	54,647,430	792,188,865	804,084,124	98.5%	11,895,258	2038	12,287,382	12,287,382
2037	4,695,756	11,303,897	15,999,653	55,330,171	795,117,174	817,464,478	97.3%	22,347,304	2039	13,670,939	13,670,939
2038	4,817,475	12,287,382	17,104,857	56,316,143	798,316,986	831,165,023	96.0%	32,848,037	2040	15,116,553	15,116,553
2039	4,952,993	13,670,939	18,623,932	57,236,890	802,308,997	845,285,906	94.9%	42,976,909	2041	16,585,437	16,585,437
2040	5,092,096	15,116,553	20,208,649	58,143,005	807,230,144	859,900,331	93.9%	52,670,188	2042	18,081,873	18,081,873
2041	5,223,052	16,585,437	21,808,489	59,076,802	813,126,271	875,032,100	92.9%	61,905,829	2043	16,704,597	18,443,510
2042	5,381,398	18,081,873	23,463,271	60,017,608	820,105,889	890,723,100	92.1%	70,617,211	2044	20,292,306	20,292,306
2043	5,544,430	18,443,510	23,987,940	60,978,709	827,044,796	907,027,936	91.2%	79,983,139	2045	23,718,411	23,718,411
2044	5,712,282	20,292,306	26,004,588	62,123,801	835,283,676	923,832,831	90.4%	88,549,154	2046	26,937,487	26,937,487
2045	5,871,531	23,718,411	29,589,942	63,531,193	846,248,969	940,874,201	89.9%	94,625,232	2047	29,327,606	29,327,606
2046	6,063,000	26,937,487	33,000,487	64,896,587	859,971,584	958,220,920	89.7%	98,249,336	2048	30,716,228	30,716,228
2047	6,260,679	29,327,606	35,588,285	65,995,051	876,044,085	976,223,602	89.7%	100,179,517	2049	31,875,049	31,875,049
2048	6,479,803	30,716,228	37,196,031	66,930,627	893,758,434	995,176,063	89.8%	101,417,629	2050	32,934,692	32,934,692
2049	6,706,596	31,875,049	38,581,645	67,941,672	912,893,994	1,015,108,845	89.9%	102,214,851	2051	33,912,339	33,912,339
2050	6,941,327	32,934,692	39,876,019	68,980,496	933,400,769	1,036,112,570	90.1%	102,711,801	2052	34,820,963	34,820,963

Section 1.3 of the City of Ann Arbor General Pension Policy states:

"The City of Ann Arbor will strive to achieve 100% funding of the City of Ann Arbor Employees' Retirement Plan. To the extent that 100% funding has been achieved, the City will continue to fund at a minimum the Normal Cost as defined by an outside actuary. To the extent that 100% funding had not been achieved, the City shall budget each fiscal year the higher of the ADC or the existing level of funding in the current budget year adjusted annually for the change in general fund budgeted revenues. In some years this may result in an excess contribution to the Pension Fund, which will serve to pay down the unfunded actuarial accrued liability and reduce future city cost increases."

APPENDIX

Risk Measures

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Covered Payroll	(5) Funded Ratio (1) / (2)	(6) Assets / Payroll (1) / (4)	(7) Liability / Payroll (2) / (4)	(8) Unfunded / Payroll (3) / (4)
6/30/2017	$489,943,000	$571,074,000	$81,131,000	$53,583,277	85.8 %	914.4 %	1065.8 %	151.4 %
6/30/2018 [1], [2]	505,015,000	583,601,000	78,586,000	53,231,121	86.5	948.7	1096.4	147.6
6/30/2019	513,611,366	601,108,981	87,497,615	55,269,697	85.4	929.3	1087.6	158.3
6/30/2020 [3]	520,439,737	614,077,223	93,637,486	56,188,540	84.8	926.2	1092.9	166.6
6/30/2021 [3]	554,096,977	627,144,090	73,047,113	55,047,831	88.4	1006.6	1139.3	132.7
6/30/2022 [3]	570,654,330	652,441,776	81,787,446	57,278,684	87.5	996.3	1139.1	142.8
6/30/2023 [1],[4]	589,551,011	670,451,757	80,900,746	59,810,694	87.9	985.7	1121.0	135.3
6/30/2024 [4]	614,997,725	679,622,931	64,625,206	62,101,477	90.5	990.3	1094.4	104.1
6/30/2025	648,228,246	689,012,179	40,783,933	66,637,818	94.1	972.8	1034.0	61.2
6/30/2026 [4]	674,672,184	701,243,425	26,571,241	70,533,728	96.2	956.5	994.2	37.7

[1] *Revised actuarial assumptions.*
[2] *Valuation results for 2018 and prior years were calculated by the City's prior actuary.*
[3] *Reflects a change in the investment return assumption.*
[4] *Change in benefit provisions.*

(5) The Funded Ratio is the most widely known measure of a plan's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and potentially to re-evaluate the assumed rate of return.

(6) and (7) The ratios of assets and liabilities to payroll gives an indication of both maturity and volatility. Many systems have ratios between 5 and 7. Ratios significantly above that range may indicate difficulty in supporting the benefit level as a level % of pay. For systems that are closed to new hires, it is expected that these ratios will grow as payroll declines.

(8) The ratio of the unfunded liability to payroll gives an indication of the plan sponsor's ability to actually pay off the unfunded liability. A ratio above approximately 3 or 4 may indicate difficulty in discharging the unfunded liability within a reasonable time frame.

Risk Commentary

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

- **Investment Risk** – actual investment returns may differ from the expected returns;
- **Asset/Liability Mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
- **Contribution Risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
- **Salary and Payroll Risk** – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
- **Longevity Risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
- **Other Demographic Risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The computed contribution amount shown on page A-3 may be considered as a minimum contribution rate that complies with the Board's funding policy. The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined amounts do not necessarily guarantee benefit security.

Risk Commentary (Concluded)

Plan Maturity Measures

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

	2026	2025	2024	2023	2022
Ratio of the market value of assets to payroll	10.40	10.08	10.30	10.13	9.97
Ratio of actuarial accrued liability to payroll	9.94	10.34	10.94	11.21	11.39
Ratio of actives to retirees and beneficiaries	0.65	0.64	0.63	0.62	0.62
Ratio of net cash flow to market value of assets	-3.3%	-3.9%	-4.2%	-4.5%	-4.2%

Ratio of Market Value of Assets to Payroll

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 10.0 times the payroll, a return on assets 5% different than assumed would equal 50% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

Ratio of Actuarial Accrued Liability to Payroll

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time. The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the actuarial accrued liability is 10 times the payroll, a change in liability 2% other than assumed would equal 20% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

Ratio of Actives to Retirees and Beneficiaries

A young plan with many active members and few retirees will have a high ratio of actives to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

Ratio of Net Cash Flow to Market Value of Assets

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

Additional Risk Assessment

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, and stochastic modeling.

Low-Default-Risk Obligation Measure

Introduction

In December 2021, the Actuarial Standards Board (ASB) adopted a revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. The revised ASOP No. 4 requires the calculation and disclosure of a liability referred to by the ASOP as the "Low-Default-Risk Obligation Measure" (LDROM). The rationale that the ASB cited for the calculation and disclosure of the LDROM was included in the Transmittal Memorandum of ASOP No. 4 and is presented below (emphasis added):

> "The ASB believes that the calculation and disclosure of this measure provides **appropriate, useful information for the intended user regarding the funded status of a pension plan**. The calculation and disclosure of this additional measure is **not intended to suggest that this is the "right" liability measure** for a pension plan. However, the ASB does believe that **this additional disclosure provides a more complete assessment of a plan's funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.**"

Comparing the Accrued Liabilities and the LDROM

One of the fundamental financial objectives of the City of Ann Arbor Employees' Retirement System is to finance each member's retirement benefits over the period from the member's date of hire until the member's projected date of retirement (entry age actuarial cost method) as a level percentage of payroll. To fulfill this objective, the discount rate that is used to value the accrued liabilities of the City of Ann Arbor Employees' Retirement System is set equal to the **expected return** on the System's diversified portfolio of assets (referred to sometimes as the investment return assumption). For the City of Ann Arbor Employees' Retirement System, the investment return assumption is 6.70%.

The LDROM is meant to approximately represent the lump sum cost to a plan to purchase low-default-risk fixed income securities whose resulting cash flows essentially replicate in timing and amount the benefits earned (or the costs accrued) as of the measurement date. The LDROM is very dependent upon market interest rates at the time of the LDROM measurement. The lower the market interest rates, the higher the LDROM, and vice versa. The LDROM results presented in this report are based on the entry age actuarial cost method and discount rates based upon the June 2026 Treasury Yield Curve Spot Rates (end of month). The 1-, 5-, 10- and 30-year rates follow: 4.02%, 4.23%, 4.52% and 5.08%. This measure may not be appropriate for assessing the need for or amount of future contributions. This measure may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligation.

The difference between the two measures (Valuation and LDROM) is one illustration of the savings the Sponsor anticipates by taking on risk in a diversified portfolio.

Valuation Accrued Liabilities	LDROM
$701,243,425	$857,154,985

State Reporting Assumptions
as of June 30, 2026

The Protecting Local Government Retirement and Benefits Act, Public Act 202 of 2017, was put into law effective December 20, 2017. One outcome of the law is the requirement for the local unit of government to provide select reporting disclosures to the State. Section 5(1) of the Act provides the State treasurer with the authority to annually establish uniform actuarial assumptions for purposes of developing the requisite disclosures. Below you will find information which may be used to assist the local unit of government with required reporting.

Uniform Assumptions, as applicable to the measurement and the required disclosures under uniform assumptions are denoted below. Additional discussion of PA 202 and uniform assumptions may be found on the State website in the uniform assumption memo dated April 14, 2026.

Uniform Assumption	PA 202	Valuation Assumptions Used	Uniform Assumptions Used
Investment Rate of Return Discount Rate	Maximum of 7.00%[(1)]	6.70%	6.70%
Salary Increase	Minimum of 3.50% or based on experience study within last 5 years	3.50% + Merit and longevity (based on an experience study dated May 11, 2023)	3.50% + Merit and longevity (based on an experience study dated May 11, 2023)
Mortality	Version of Pub-2016 tables with Generational mortality improvement using the 2024 adjusted scale MP-2021 or based on experience study within last 5 years	A version of Pub-2010 tables with Generational mortality improvement using scale MP-2021 (based on an experience study dated May 11, 2023)	A version of Pub-2010 tables with Generational mortality improvement using scale MP-2021 (based on an experience study dated May 11, 2023)
Amortization of the Unfunded Accrued Actuarial Liability:			
Period	Maximum Period of 13 Years	15 years	**13 years**
Method	Closed Plans: Level Dollar Open Plans: Level Dollar or Level Percent of Payroll	Level Dollar	Level Dollar
Type	Closed	Closed	Closed

(1) *A blended rate calculated using GASB Statement No. 68 methodology. For periods in which projected plan assets are sufficient to make projected benefit payments – maximum of 7.00%; for periods in which projected plan assets are NOT sufficient to make projected benefit payments – maximum of 3.93%.*

State Reporting Assumptions
as of June 30, 2026

The following information has been prepared to provide some of the information necessary to complete the pension reporting requirements for the State of Michigan's Local Government Retirement System Annual Report (Form 5572). Additional resources are available on the State website.

3	**Financial Information[1]**	
4	Enter retirement pension system's assets (system fiduciary net position ending)	$ 674,672,184
5	Enter retirement pension system's liabilities (total pension liability ending)	$ 701,243,425
6	Funded ratio	Auto[5]
7	Actuarially Determined Contribution (ADC)	$ 11,479,032
8	Governmental Fund Revenues	TBD[4]
9	All systems combined ADC/Governmental fund revenues	Auto[5]
10	**Membership[1]**	
11	Indicate number of active members	796
12	Indicate number of inactive members	96
13	Indicate number of retirees and beneficiaries	1,220
14	**Investment Performance**	
15	Enter actual rate of return - prior 1-year period	TBD[4]
16	Enter actual rate of return - prior 5-year period	TBD[4]
17	Enter actual rate of return - prior 10-year period	TBD[4]
18	**Actuarial Assumptions[1]**	
19	Actuarial assumed rate of investment return[2]	6.70%
20	Amortization method utilized for funding the system's unfunded actuarial accrued liability, if any	Level Dollar
21	Amortization period utilized for funding the system's unfunded actuarial accrued liability, if any	15
22	Is each division within the system closed to new employees?	No
23	**Uniform Assumptions[3]**	
24	Enter retirement pension system's actuarial value of assets using uniform assumptions	$ 674,672,184
25	Enter retirement pension system's actuarial accrued liabilities using uniform assumptions	$ 701,243,425
26	Funded ratio using uniform assumptions	Auto[5]
27	Actuarially Determined Contribution (ADC) using uniform assumptions	$ 11,332,967
28	All systems combined ADC/Governmental fund revenues	Auto[5]

(1) *Information on lines 4-5, lines 11-13, and lines 19-22 can be found in the Annual Actuarial valuation report.*

(2) *Net of investment expenses.*

(3) *Information on lines 24-28 is based on assumptions listed on the prior page as of the most recent valuation date, June 30, 2026.*

(4) *To be supplied by the City of Ann Arbor.*

(5) *Automatically calculated by State of Michigan Form 5572.*