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City of Pontiac Police and Fire Retiree Prefunded  
Group Health and Insurance Trust

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**Financial Report  
with Supplemental Information  
December 31, 2020**

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

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## **Independent Auditor's Report**

To the Board of Trustees  
City of Pontiac Police and Fire Retiree Prefunded  
Group Health and Insurance Trust

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust as of December 31, 2020 and the changes in its fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, the Trust along with related entities are pursuing efforts to transfer its assets, with appropriate IRS approval. . Our opinion is not modified with respect to this matter.

To the Board of Trustees  
City of Pontiac Police and Fire Retiree Prefunded  
Group Health and Insurance Trust

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Plante & Moran, PLLC*

June 23, 2021

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Management's Discussion and Analysis

### ***Using This Annual Report***

This annual report consists of three parts: (1) the management's discussion and analysis (this section), (2) the basic financial statements, and (3) the required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

### ***Condensed Financial Information***

The tables below compare key financial information in a condensed format between the current year and the prior year:

#### **The Trust's Net Position**

	2020	2019
<b>Assets</b>	\$ 50,762,459	\$ 43,713,452
<b>Liabilities</b>	6,704,949	264,566
<b>Net Position - Restricted for retiree health care</b>	<b>\$ 44,057,510</b>	<b>\$ 43,448,886</b>

#### **The Trust's Changes in Net Position**

	2020	2019
<b>Additions</b>		
Net investment income	\$ 3,023,527	\$ 6,263,203
Other income	161,792	3,081
Total additions	3,185,319	6,266,284
<b>Deductions</b>		
Retirees' health benefits - Net of retiree contribution	2,530,663	2,614,513
General and administrative expenses	46,032	49,079
Total deductions	2,576,695	2,663,592
<b>Net Increase in Net Position</b>	608,624	3,602,692
<b>Net Position - Beginning of year</b>	43,448,886	39,846,194
<b>Net Position - End of year</b>	<b>\$ 44,057,510</b>	<b>\$ 43,448,886</b>

The increase in liabilities from 2019 to 2020 was the result of timing differences with an investment trade not settled before December 31, 2020.

#### **Plan Contributions**

Employer contributions recognized were \$0 for 2020 and 2019.

#### **Retiree Health Benefits and Employee Contributions**

Total retiree health benefits paid were \$3,141,268 and \$3,264,577 in 2020 and 2019, respectively, prior to the application of the portion of benefits to be paid by retirees. Retiree contributions were \$610,605 and \$650,064 in 2020 and 2019, respectively.

#### **Overall Fund Structure and Objectives**

City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") exists to pay health care benefits to members retiring on or after August 22, 1996. Any excess of contributions over benefits paid will allow for additional funding to increase investment income to a level where the Trust will generate adequate earnings to pay future benefits. The public capital markets represent the primary source of investments.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

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## Management's Discussion and Analysis (Continued)

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On April 4, 2017, the City of Pontiac, Michigan announced that a tentative settlement had been reached with regard to retiree health care. In October 2018, the federal judge in the case approved the tentative settlement. The settlement agreement, once approved by various parties, including the Michigan Association of Public Employees (MAPE) and the Internal Revenue Service (IRS), among others, would provide retiree health care benefits to all eligible City of Pontiac, Michigan retirees via the creation of a new VEBA. This new VEBA will be funded by utilizing certain overfunded assets from the City of Pontiac General Employees' Retirement System and this Trust. In March 2021, the IRS issued a favorable determination. The Trust and related entities are pursuing efforts to transfer assets, with appropriate IRS approval.

### **Asset Allocation**

The Trust has established asset allocation policies, which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the Trust. The following is a summary of the target asset allocation as of December 31, 2020:

Domestic equities	52.50 %
international equity	12.50
Domestic bonds	18.00
Noncore bonds	5.00
Alternative assets	12.00

### **Investment Results**

2020 will be remembered because of COVID-19. For investors, the year will be remembered for the rollercoaster ride that the markets took. After a modest start to the 2020, the stock market plunged by over 33 percent in 23 trading days during February and March. The decline coincided with the spread of the pandemic across the globe and the resulting economic shutdowns. Governments and central banks introduced fiscal and monetary programs to soften the impact. The markets responded by recouping their losses in just under 100 trading days. The equity markets continued to their rebound into the second half of the year, particularly after the announcement that a COVID-19 vaccine had been developed in November. However, not all stocks fully participated in the recovery - growth stocks outperformed value stocks by a wide margin during the year (roughly 30 percent). The fixed-income market also produced relatively good results, as interest rates fell dramatically. Real estate was one asset class that struggled in 2020, as the stay-at-home orders impaired retail and office properties. In 2020, the S&P 500 gained 18.4 percent (large-cap stocks), the Bloomberg Barclays US Aggregate (U.S. fixed income) increased 7.5 percent, and the NCREIF Property Index (US real estate) rose 1.6 percent.

The Trust returned 7.20 percent for the year ended December 31, 2020 (gross return, measured using the time-weighted return on each component of the Fund).

### **Contacting the Trust's Management**

This financial report is intended to provide a general overview of the Trust's finances and investment results in relation to actuarial projections. It shows the Trust's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the Trust's office at 700 Tower Drive, Suite 300, Troy, MI 48098.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Statement of Trust Net Position

December 31, 2020

### Assets

Cash and cash equivalents	\$ 7,050,591
Investments: (Note 2)	
Short-term investments	3,826,415
Equities	24,985,640
Real estate investment trusts	1,086,265
Fixed income	6,056,034
Limited partnerships	7,730,553
Accrued interest and dividends	<u>26,961</u>
Total assets	50,762,459

### Liabilities

Accounts payable	29,598
Due to City of Pontiac, Michigan	1,659,116
Due to City of Pontiac Police and Fire Retirement System	6,022
Due to brokers	<u>5,010,213</u>
Total liabilities	<u>6,704,949</u>

**Net Position** - Restricted for retiree health care

**\$ 44,057,510**

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Statement of Changes in Trust Net Position

Year Ended December 31, 2020

### Additions

Investment income (loss):	
Interest and dividends	\$ 1,041,866
Net increase in fair value of investments	2,070,949
Investment-related expenses	<u>(89,288)</u>
Total investment income (loss)	3,023,527
Other income	<u>161,792</u>
Total additions	3,185,319

### Deductions

Retirees' health benefits - Net of retiree contribution	2,530,663
General and administrative expenses	<u>46,032</u>
Total deductions	<u>2,576,695</u>

**Net Increase in Net Position** 608,624

**Net Position - Beginning of year** 43,448,886

**Net Position - End of year** \$ 44,057,510

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

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## Notes to Financial Statements

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December 31, 2020

### Note 1 - Significant Accounting Policies

#### *Reporting Entity*

The City of Pontiac, Michigan (the "City") has established an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, Michigan and retired on or after August 22, 1996. During 2013, the board of trustees passed a resolution to expand membership to retirees who retired prior to August 22, 1996. The pre-August 22, 1996 retirees were covered by the Trust effective September 1, 2013 through April 1, 2014. All such benefits are paid out of the Trust. The City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The Police and Fire Retirement System (the "Retirement System") performs the Trust's accounting function.

#### *Plan Sponsor Financial Condition*

The City of Pontiac, Michigan (the "plan sponsor") was experiencing financial difficulty. In early 2013, the City was in receivership under Michigan Public Act 436 of 2012. The result was that the State had appointed an emergency manager to control the finances of the City. During 2012, the emergency manager issued Executive Orders S-206 and S-207. These orders required all retirees to enroll in Medicare upon reaching eligibility age. The orders also required pre-age 65 retirees to pay the amount of premium above the hard-cap limit established by Public Act 152 of 2011 or 20 percent of the annual rates, whichever is higher, effective July 1, 2012. The emergency manager subsequently issued Executive Order S-304, which stated that all of the City of Pontiac, Michigan's funding of health and prescription drug insurance for retirees be eliminated effective September 1, 2013 for the City's fiscal years ended June 30, 2014 and 2015.

As of the end of the fiscal year 2013, the City was no longer under receivership and was governed by a transition advisory board. On March 31, 2016, the State amended Executive Order S-334 and rescinded Executive Order S-332. These changes effectively restored much of the city charter powers to the mayor and city council. Effective July 27, 2017, the City's receivership status was terminated.

Contributions that were scheduled to be made to the Trust for the years ended December 31, 2011 and 2010 in the amount of \$2,635,156 and \$2,104,382, respectively, were not remitted to the Trust by the City in those years. During 2011, the Trust filed a lawsuit against the plan sponsor to compel payment on past-due contributions. In March 2013, a settlement agreement was reached between the Trust and the plan sponsor, and the City remitted a payment for past-due contributions in the amount of \$3,243,923. Contributions for 2012 were also the subject of a separate lawsuit. On July 31, 2019, a court judgment was entered in favor of the Trust in the amount of \$4,073,975. To satisfy the judgment, the Trust suspended its reimbursement made to the City each month for health care premium expenses until the judgment is fully satisfied. As of December 31, 2020, the City does not owe an amount to the Trust.

On April 4, 2017, the City of Pontiac, Michigan announced that a tentative settlement had been reached with regard to retiree health care. In October 2018, the federal judge in the case approved the tentative settlement. The settlement agreement, once approved by various parties, including the Michigan Association of Public Employees (MAPE) and the Internal Revenue Service (IRS), among others, would provide retiree health care benefits to all eligible City of Pontiac, Michigan retirees via the creation of a new VEBA. This new VEBA will be funded by utilizing certain overfunded assets from the City of Pontiac General Employees' Retirement System and this Trust. In March 2021, the IRS issued a favorable determination. The Trust and related entities are pursuing efforts to transfer assets, with appropriate IRS approval.

December 31, 2020

**Note 1 - Significant Accounting Policies (Continued)**

***Basis of Accounting***

The City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due, and the employer has made a formal commitment and expressed intent to provide the contributions. Insurance and other benefit costs are recognized when due and payable in accordance with the terms of the Trust.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Methods Used to Value Investments***

Investments are reported at estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sale price at current exchange rates. Securities not traded on a national or international exchange are based upon quoted prices for comparable instruments with similar yields and risk in active and inactive markets. Investments that do not have an established market value are valued at net asset value (NAV) as a practical expedient to estimate fair value.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including June 23, 2021, which is the date the financial statements were available to be issued.

**Note 2 - Deposits and Investments**

A retiree health care fund is authorized by Michigan Public Act 314 of 1965, as amended (the "Act"), to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in mutual or commingled funds but not the remainder of state statutory authority, as listed above. The Trust's deposits and investment policies are in accordance with statutory authority.

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. At year end, the Trust had \$6,802,512 of bank deposits (checking and investment account) that were uninsured and uncollateralized. The Trust believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Trust evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 2 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Trust's investment policy does not restrict investment maturities. At December 31, 2020, the Trust is invested in mutual funds that invest in several bonds with various maturities.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Trust has no investment policy that would further limit its investment choices. At December 31, 2020, the Trust is invested in mutual funds that invest in several bonds with various credit quality ratings.

#### Fair Value Measurements

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Trust's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Trust has the following recurring fair value measurements as of December 31, 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
<b>Assets</b>				
Equity securities:				
Common stock	\$ 24,985,640	\$ -	\$ -	\$ 24,985,640
Real estate investment trusts	1,086,265	-	-	1,086,265
Total equity securities	26,071,905	-	-	26,071,905
Debt securities - Corporate bonds mutual funds	6,056,034	-	-	6,056,034
Total investments by fair value	<u>\$ 32,127,939</u>	<u>\$ -</u>	<u>\$ -</u>	32,127,939
Investments measured at NAV - Limited partnerships				<u>7,730,553</u>
Total investments measured at fair value				<u>\$ 39,858,492</u>

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 2 - Deposits and Investments (Continued)

The Trust did not have any investments determined primarily based on Level 2 or 3 inputs at December 31, 2020.

The valuation method for investments measured at net asset value per share (or its equivalent) is presented in the table below.

#### ***Investments in Entities that Calculate Net Asset Value per Share***

The Trust holds shares or interests in investment companies where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At December 31, 2020, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Carrying Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Limited partnerships	\$ 7,730,553	\$ 710,332	Quarterly	10 days

The limited partnership class includes investments predominantly in private debt. The fair values of the investments in these funds have been estimated using net asset value per share of the investments.

In addition, the Trust has an investment of \$3,826,415 reported at amortized cost in accordance with GASB Statement No. 79. This investment is not subject to any limitations or restrictions on withdrawals.

### Note 3 - Postemployment Benefits

#### ***Plan Description***

The City provides retiree health care benefits to eligible retirees and their spouses and qualified dependents through the City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust. This is a single-employer benefit plan administered by the City of Pontiac Police and Fire Retirement System.

Management of the Trust is vested in the board of trustees, which consists of five members - two trustees are elected by the membership, two sit by virtue of their position, and one is appointed by the other trustees.

The Trust's financial statements are also included in the City of Pontiac, Michigan's financial report and can be obtained by writing to 47450 Woodward Ave., Pontiac, MI 48342.

#### ***Benefits Provided***

The Trust provides health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, Michigan and retired on or after August 22, 1996. During 2013, the board of trustees passed a resolution to expand membership to retirees who retired prior to August 22, 1996. The pre-August 22, 1996 retirees were covered by the Trust effective September 1, 2013 through April 1, 2014. All such benefits are paid out of the Trust.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 3 - Postemployment Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Prior to February 1, 2012, the Trust paid 100 percent of the costs of medical, hospitalization, disability, vision, hearing, and life insurance benefits for members of the VEBA, at a specific level of coverage, as set forth in the relevant collective bargaining agreements between the City of Pontiac, Michigan and the police and fire unions. The City of Pontiac, Michigan's emergency manager issued Executive Orders 128 (Fire) and 131 (Police) effective February 1, 2012. These identical orders reduced the level of medical, hospitalization, and dental benefits. These orders eliminated coverage for life insurance, disability, vision, and hearing. Dental coverage was subsequently eliminated by executive order. The City of Pontiac, Michigan's emergency manager issued Executive Orders 206 (Fire) and 207 (Police) effective February 1, 2012. These identical orders required any current pre-age 65 retirees to pay by deduction from their pension checks the amount above the hard-cap limit (as defined in Public Act 152 of 2011) or 20 percent of the annual rates, whichever is higher.

The valuation is based on the level of benefits currently in place, as set forth by the above executive orders, not the collectively bargained benefits. The executive orders are temporary, pursuant to statute; therefore, when the State of Michigan determines that the City of Pontiac, Michigan's receivership has ended, the reduction in benefits provided by these executive orders may be removed. In August 2017, the City was released from receivership; however, the decision to remove the reduction in benefits has not yet been made. If the valuation were based on the collectively bargained benefits, without reduction due to the executive orders, the OPEB liability would be higher, but that amount has not been calculated at this time.

#### **Employees Covered by Benefit Terms**

The following members were covered by the benefit terms:

Date of member count	December 31, 2019
Inactive plan members or beneficiaries currently receiving benefits	177
Inactive plan members entitled to but not yet receiving benefits	56
Other retirees who could elect	80

As of December 31, 2020, there were no active employees.

During 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred. This resulted from the termination of various active employee positions at the City under executive orders issued by the emergency manager. The impact of membership composition is reflected above, with the impact of the funded status of the health care trust being demonstrated below.

In addition, effective March 1, 2012, the remaining fire employees ceased to be employees of the City. As such, the plan is effectively closed for active or new participants.

#### **Contributions**

Historically, the Trust has been funded primarily by employer contributions. The trustees voted to implement funding at the actuarial recommended rate beginning on July 1, 2006. However, scheduled contributions were not paid to the Trust by the City. In 2018, as described in Note 1, the Trust recorded a contribution receivable and corresponding revenue in the amount of \$4,073,975 related to a court judgment against the City in favor of the Trust. No contribution revenue was recorded in the current year.

Certain retirees are required to contribute toward the premiums paid on their behalf. Benefit expense for the year ended December 31, 2020 was \$2,530,663, which is net of \$610,605 in retiree contributions toward premiums.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 3 - Postemployment Benefits (Continued)

#### Net OPEB Asset

The net OPEB asset of the Trust has been measured as of December 31, 2020 and is composed of the following:

Total OPEB liability	\$ 30,765,238
Plan fiduciary net position	<u>44,057,510</u>
Net OPEB asset	<u>\$ (13,292,272)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	143.21 %

#### Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2019, which used update procedures to roll forward the estimated liability to December 31, 2020. The valuation used the following actuarial assumptions applied to all periods included in the measurement unless otherwise specified:

Inflation	2.25 percent
Health care cost trend rate	8.00 percent decreasing 0.5 percent per year to an ultimate rate of 5 percent for 2026 and later years
Mortality	General retirees and deferred vested employees: SOA Pub-2010 Headcount-weighted Public Safety Mortality Table fully generational using Scale MP-2019
	Disabled retirees: SOA Pub-2010 Headcount-weighted Disabled Public Safety Mortality Table fully generational using Scale MP-2019
	Surviving spouses: SOA Pub-2010 Headcount-weighted Contingent Survivor Mortality Table fully generational using Scale MP-2019
Investment rate of return	7.50 percent net of OPEB plan investment expense, including inflation

#### Discount Rate

The discount rate used to measure the total OPEB liability was 7.50 percent.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 3 - Postemployment Benefits (Continued)

#### Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.50 %
International equity	8.50
Domestic bonds	2.50
Noncore bonds	3.50
Alternative assets	6.39

#### Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the Trust, calculated using the discount rate of 7.5 percent. The following also reflects what the Trust's net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1 Percentage Point Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percentage Point Increase (8.5%)
Net OPEB asset of the Trust	\$ 9,391,092	\$ 13,292,272	\$ 16,500,303

#### Sensitivity of the Net OPEB Asset to Changes in the Health Care Cost Trend

The following presents the net OPEB asset of the Trust, calculated using the health care cost trend rate of 8.0 percent, as well as what the net OPEB asset would be if it were calculated using a health care cost trend rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1 Percentage Point Decrease (7.0%)	Current Health Care Cost Trend Rate (8.0%)	1 Percentage Point Increase (9.0%)
Net OPEB asset of the Trust	\$ 16,314,610	\$ 13,292,272	\$ 9,652,317

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

## Notes to Financial Statements

December 31, 2020

### Note 3 - Postemployment Benefits (Continued)

#### *Investment Policy*

The Trust's policy with regard to the allocation of invested assets is established and may be amended by the Trust's board by a majority vote of its members. It is the policy of the Trust's board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Trust board's adopted asset allocation policy as of December 31, 2020:

Asset Class	Target Allocation
Domestic equity	52.50 %
International equity	12.50
Domestic bonds	18.00
Noncore bonds	5.00
Alternative assets	12.00

#### *Rate of Return*

For the year ended December 31, 2020, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 7.19 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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## Required Supplemental Information

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## City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

### Required Supplemental Information Schedule of Changes in the Net OPEB (Asset) Liability and Related Ratios

	Last Four Fiscal Years			
	2020	2019	2018	2017
<b>Total OPEB Liability</b>				
Interest	\$ 2,812,830	\$ 2,857,872	\$ 2,983,381	\$ 2,890,913
Differences between expected and actual experience	(8,263,788)	(1,140,426)	(2,597,547)	3,832,503
Changes in assumptions	-	(3,059,994)	(2,409,464)	551,988
Benefit payments, including refunds	(2,530,663)	(2,614,513)	(2,304,955)	(1,887,615)
<b>Net Change in Total OPEB Liability</b>	(7,981,621)	(3,957,061)	(4,328,585)	5,387,789
<b>Total OPEB Liability - Beginning of year</b>	38,746,859	42,703,920	47,032,505	41,644,716
<b>Total OPEB Liability - End of year</b>	<b>\$ 30,765,238</b>	<b>\$ 38,746,859</b>	<b>\$ 42,703,920</b>	<b>\$ 47,032,505</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ -	\$ -	\$ 4,073,975	\$ -
Net investment income (loss)	3,023,527	6,263,203	(2,848,439)	4,508,528
Administrative expenses	(46,032)	(49,079)	(55,482)	(95,449)
Benefit payments, including refunds	(2,530,663)	(2,614,513)	(2,304,955)	(1,887,615)
Other	161,792	3,081	29,049	845
<b>Net Change in Plan Fiduciary Net Position</b>	608,624	3,602,692	(1,105,852)	2,526,309
<b>Plan Fiduciary Net Position - Beginning of year</b>	43,448,886	39,846,194	40,952,046	38,425,737
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 44,057,510</b>	<b>\$ 43,448,886</b>	<b>\$ 39,846,194</b>	<b>\$ 40,952,046</b>
<b>Net OPEB (Asset) Liability - Ending</b>	<b>\$ (13,292,272)</b>	<b>\$ (4,702,027)</b>	<b>\$ 2,857,726</b>	<b>\$ 6,080,459</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	143.21 %	112.14 %	93.31 %	87.07 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

Schedule will be built prospectively from GASB Statement No. 74 adoption until 10 full years are presented.

## City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

### Required Supplemental Information Schedule of OPEB Contributions

#### Last Ten Fiscal Years Years Ended December 31

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ -	\$ -	\$ 82,480	\$ 287,012	\$ 529,837	\$ 5,079,102	\$ 3,919,277	\$ 5,663,685	\$ 6,570,422	\$ 6,598,669
Contributions in relation to the actuarially determined contribution	-	2,925,244	-	-	-	-	-	3,243,332	3,243,332	-
<b>Contribution Excess (Deficiency)</b>	<b>\$ -</b>	<b>\$ 2,925,244</b>	<b>\$ (82,480)</b>	<b>\$ (287,012)</b>	<b>\$ (529,837)</b>	<b>\$ (5,079,102)</b>	<b>\$ (3,919,277)</b>	<b>\$ (2,420,353)</b>	<b>\$ (3,327,090)</b>	<b>\$ (6,598,669)</b>

Based on the City's fiscal year ended June 30.

Amount shown as contributions for 2012 relate to contributions due during 2011 and 2010 that were received in 2012.

Amount shown as contributions for 2019 relate to the court judgment against the City for 2012 contributions, which was partially received in 2019.

Annual determined contribution was zero for 2020.

#### Notes to Schedule of Contributions

Actuarially valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal, level percent of salary
Amortization method	Level dollar
Remaining amortization period	26 years
Asset valuation method	Market value
Inflation	2.25 percent
Health care cost trend rates	8.00 percent decreasing 0.5 percent per year to an ultimate rate of 5 percent for 2026 and later years
Investment rate of return	7.5 percent
Mortality	Various SOA Pub-2010 headcount-weighted tables fully generational using Scale MP-2019

## City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

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### Required Supplemental Information Schedule of OPEB Investment Returns

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	Last Four Fiscal Years			
	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	7.19 %	18.42 %	(6.82)%	12.43 %

Schedule will be built prospectively from GASB Statement No. 74 adoption until 10 full years are presented.

# City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust

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## Note to Required Supplemental Information

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**December 31, 2020**

### ***Changes in Assumptions***

In 2017, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.10 percent to 6.50 percent.

In 2018, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.50 percent to 6.90 percent.

In 2019, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.90 percent to 7.50 percent and mortality table from the SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2018 improvement scale to various SOA Pub-2010 headcount-weighted tables fully generational using Scale MP-2019.