City of Novi: OPEB

Retiree Healthcare Investment Policy
Overview and Proposed Changes

What is OPEB?

- **Other Post-Employment Benefits (OPEB):** Benefits promised to employees upon retirement who are part of the defined benefit (DB) pension plan. Benefits include:
    - Medical
    - Prescription Drugs
    - Vision

- **Does not include RHC for employees who are part of the defined contribution pension plan**

OPEB HISTORY

- Unlike DB pensions, no legal requirement to fund OPEB
- Most communities were pay-as-you-go for RHC
- Novi proactively determined the liability and began funding OPEB in April 2003.
- Treasurer is the trustee of the OPEB funds
  - Investment policy approved by council
  - Funds held in trust

OPEB - INVESTMENTS

- OPEB investments are deemed to be long-term in nature (similar to pensions) and therefore follow PA 314.
- **Public Employee Retirement System Act, ACT 314 OF 1965:** Authorizes the investment of assets of retirement system assets

City of Novi - OPEB

Insights:

- In 2003 began to actuarially fund the OPEB liability.
- Utilized (3) investment managers:
  - Morgan Stanley (MS)
  - UBS
  - MERS
- Overall sum of all managers investments must follow OPEB investment policies.
- City over the last few years working toward a single investment manager (currently have MS and MERS)

OPEB - GASB 74

- As of June 2015 (FY 2017 implementation), GASB 74 requires quantification and disclosure of OPEB assets and liabilities.
  - Significant liability not recorded on books
  - Government wide only, not fund based.
  - No funding requirement.
  - Improves transparency.

OPEB - PA 202

- **PA 202 (Protecting Local Government Retirement and Benefits Act):** As of December 2017, requires local governments that have DB (pension) retirement plans and/or OPEB plans to report funding information to the Michigan Department of Treasury.
  - Funding level requirements: 60% pension, 40% OPEB.
  - 30-year corrective action plan.
  - Does require contributions of normal cost for new employees after 2017
  - FY 2018, 532 total plans, 348 under 40%, 195 0%

OPEB Components

- **AAL (Actuarial Accrued Liability):**
    1. Healthcare costs (self-funded 2020)
    2. Age/Mortality
    3. Retirement date
    4. Marital status
    5. Medicare post 65
    6. Closed DB plans 2006-2011
- **Net Position:**
    1. Investment rate of return (7%)
    2. Contributions
    3. Smoothing

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Smoothing

City of Novi
Development of Valuation Assets

Year Ended June 30	2018	2019	2020	2021	2022	2023	2024	2025
A. Funding Value Beginning of Year		$29,531,156	$31,039,262	$32,217,877				
B. Market Value End of Year	$29,531,156	30,831,971	31,322,380	39,568,187				
C. Market Value Beginning of Year		29,531,156	30,831,971	31,322,380				
D. Non-Investment Net Cash Flow		(631,236)	(731,694)	(894,902)				
E. Investment Income								
E1. Market Total: B - C - D		1,932,051	1,222,103	9,140,709				
E2. Assumed Rate of Investment Return		7.50%	7.00%	7.00%				
E3. Amount for Immediate Recognition		2,191,165	2,147,139	2,223,930				
E4. Amount for Phased-In Recognition: E1 - E3		(259,114)	(925,036)	6,916,779				
F. Phased-In Recognition of Investment Income								
F1. Current Year: (1/5) x E4		(51,823)	(185,007)	1,383,356				
F2. First Prior Year		0	(51,823)	(185,007)	$ 1,383,356			
F3. Second Prior Year		0	0	(51,823)	(185,007)	$ 1,383,356		
F4. Third Prior Year		0	0	0	(51,823)	(185,007)	$ 1,383,356	
F5. Fourth Prior Year		0	0	0	0	(51,822)	(185,008)	$ 1,383,355
F6. Total Recognized Investment Gain		(51,823)	(236,830)	1,146,526	1,146,526	1,146,527	1,198,348	1,383,355
G. Funding Value End of Year A + D + E3 + F6		31,039,262	32,217,877	34,693,431				
H. Difference between Market & Funding Value		(207,291)	(895,497)	4,874,756	3,728,230	2,581,703	1,383,355	0
I. Recognized Rate of Return		7.32 %	6.23 %	10.61 %				
J. Market Rate of Return		6.61%	4.01 %	29.61 %				
K. Ratio of Funding Value to Market Value		100.67 %	102.86 %	87.68 %				

In the year of implementation, the Beginning of Year Funding Value of Assets is set equal to the Beginning of Year Market Value of Assets. The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment return (line E4) are phased-in over a closed 5-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. If assumed rates are exactly realized for 4 consecutive years, it will become equal to Market Value.

PA 314 – Investment Overview

Key Guidelines:

- Common investment guideline generalization 70/30%.
- No more than 70% in equities (stocks).
- No more than 5% of total portfolio in a single stock.
- Up to 10% of portfolio may be used in alternative investments.

NOVI OPEB INVESTMENT POLICY

Overview:

- **Created by City Treasurer in 2003 and periodically amended**
- **Last amendment was approved by council December 9, 2019.**
- **Proposed amendment is to allow for more flexibility with investments while moving toward a more conservative overall approach given the 113.73% funding level.**
- **Proposed amendment is only for changes to the asset allocation ranges**

OPEB/Pension Funding Overview

	Assets	Actuarial Accrued Liability (AAL)	Funding (%)
6/30/2014			
OPEB	$19,300,000	$23,200,000	83.2%
Pension	$57,100,000	$84,000,000	68.0%
6/30/2023			
OPEB	$34,000,000	$29,900,000	113.7%
Pension	$74,400,000	$123,100,000	60.4%

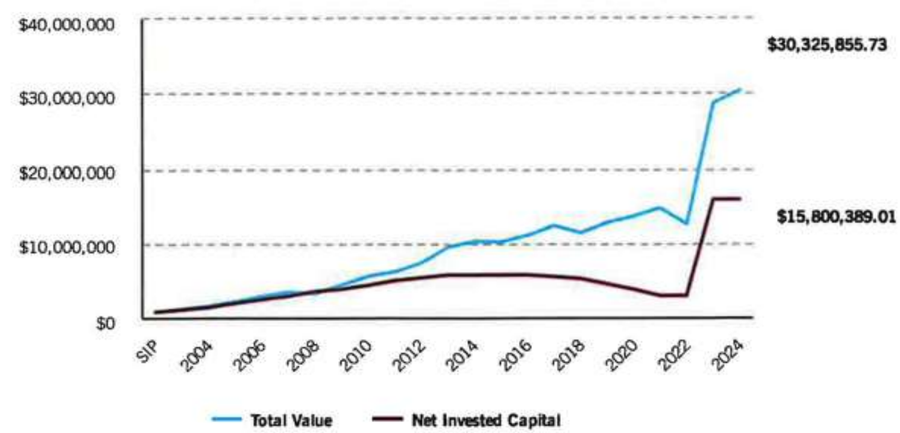
Asset Allocation

Novi Performance | As of March 31, 2024 | Reporting Currency: USD

DOLLAR-WEIGHTED RETURN % (NET OF FEES)

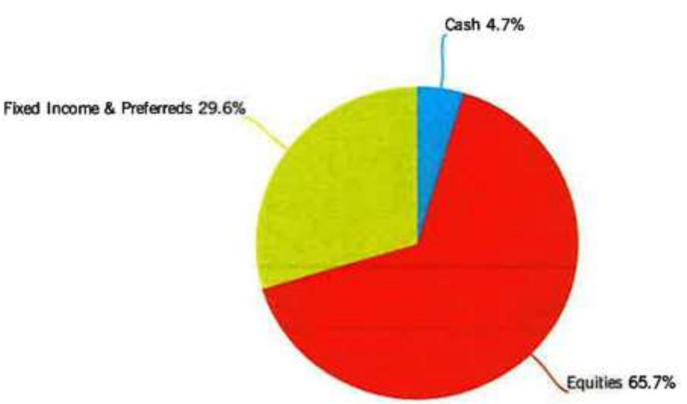
	Year to Date ($) 12/31/23-03/31/24	Previous Year ($) 12/31/22-12/29/23	Performance Inception ($) 04/25/03-03/31/24
Beginning Total Value	**28,615,094**	**12,427,911**	**750,000**
Beginning Accrued Income	74,437	17,558	0
Net Contributions/Withdrawals	-815	12,930,810	15,050,389
Investment Earnings	1,711,577	3,256,373	14,525,467
Ending Total Value	**30,325,856**	**28,615,094**	**30,325,856**
Ending Accrued Income	68,200	74,437	68,200
DOLLAR WEIGHTED RATE OF RETURN (%) **(Annualized for periods over 12 months)**			
Return % (Net of Fees)	5.98	14.92	8.03

TOTAL VALUE VS. NET INVESTED CAPITAL



Does not include Performance Ineligible Assets.

ASSET ALLOCATION



INCOME AND DISTRIBUTION SUMMARY

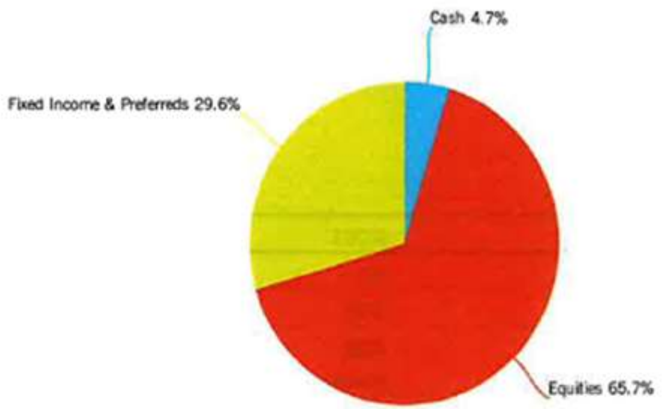
	Rolling 12 Months ($) 04/01/23-03/31/24	Year To Date ($) 01/01/24-03/31/24
ASSET CLASS		
Cash	86,183.91	22,980.34
Equities	308,796.55	44,227.10
Fixed Income & Preferreds	242,424.72	78,241.98
Alternatives	19,160.39	3,795.79
Total Asset Class	**656,565.57**	**149,245.21**
TAX CATEGORY		
Taxable Account(s)		
Taxable	656,565.57	149,245.21
Tax-Exempt	-	-
Total	656,565.57	149,245.21
Tax Qualified Account(s)	-	-
Total Tax Category	**656,565.57**	**149,245.21**

Taxable and tax-exempt income classifications are based on characteristics of the underlying securities and not the taxable status of the account. Please see Disclosures for important information on how income & distributions from certain securities/investments are presented in this material.

Asset Allocation (cont.)

Novi Performance | As of March 31, 2024 | Reporting Currency: USD

ASSET ALLOCATION - ASSET CLASS



ASSET ALLOCATION

	Total Value ($) 03/31/2024	% of Portfolio 03/31/2024
Cash	**1,412,642.31**	**4.7**
Global Cash	1,412,642.31	4.7
Equities	**19,915,862.50**	**65.7**
US Equities	16,369,012.18	54.0
International Equities	3,546,850.32	11.7
Fixed Income & Preferreds	**8,981,800.75**	**29.6**
US Fixed Income Taxable	8,981,800.75	29.6
TOTAL PORTFOLIO	**30,310,305.56**	**100.0**

MERS Total Market Portfolio

Retiree Health Funding Vehicle (RHFV) and Investment Services Program (ISP)

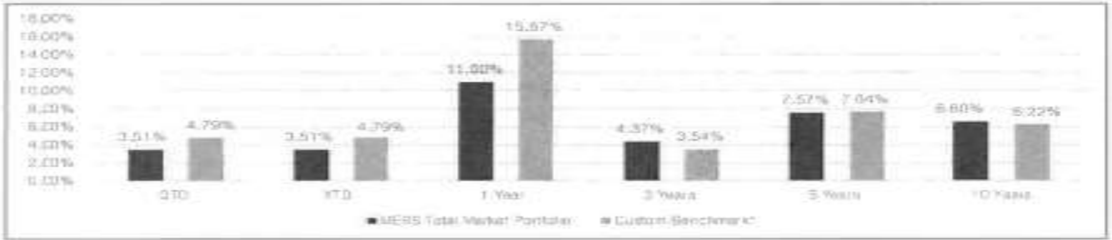
MERS
Municipal Employees' Retirement System

Objective

The MERS Total Market Portfolio is a diversified portfolio that provides current income and capital appreciation while minimizing the volatility of the capital markets.

Performance – Annualized

Fund Inception: October 1975



Fund Expenses

Administrative Fee	0.21%
Investment Management Expenses	0.37%
Total Annual Operating Expense	**0.58%**

The total annual operating expense is deducted from the rate of return of the fund. This means that for every $1,000 invested in the MERS Total Market Portfolio, an employer is charged $5.80 in fees each year.

Performance – By Calendar Year

Year	MERS Total Market Portfolio	Custom Benchmark*
2023	11.64%	16.56%
2022	-10.42%	-16.81%
2021	14.09%	11.61%
2020	13.29%	15.19%
2019	13.52%	20.83%
2018	-3.62%	-5.36%
2017	13.21%	16.72%
2016	10.67%	6.30%

Top Ten Holdings

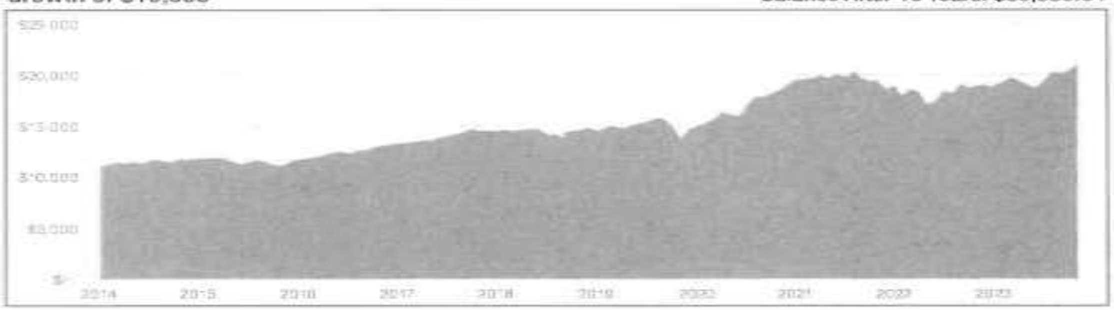
iShares Core S&P 500 ETF	7.09%
Invesco S&P 500 QVM Multi-Factor ETF	6.60%
SPDR Portfolio Intermediate Treasury ETF	5.22%
SPDR Portfolio Short-Term Treasury ETF	4.40%
iShares Core MSCI Emerging Markets ETF	2.87%
SPDR Portfolio Long-Term Treasury ETF	2.28%
Invesco S&P 400 Midcap QVM Multi-Factor ETF	2.15%
iShares Core MSCI Pacific ETF	2.08%
SPDR Bloomberg Emerging Markets USD Bond ETF	1.71%
Vanguard Short-Term Treasury ETF	1.67%

Asset Allocation

Global Equity	**48.3%**
U.S. Stocks	22.6%
International Stocks	17.0%
Emerging Market Stocks	8.7%
Global Fixed Income	**26.1%**
U.S. Treasury Bonds	17.5%
U.S. High Yield Bonds	0.7%
Emerging Market Bonds	5.7%
Short Duration Bonds	2.2%
Private Markets	**25.6%**

Growth of $10,000

Balance After 10 Years: $20,959.64



This graph shows the growth of $10,000. If someone invested $10,000 in the MERS Total Market Portfolio ten years ago with no additional contributions or withdrawals, they would have $20,959.64 as of 03/31/2024.

Risk Analysis

Low Medium High

Standard Deviation (5-Year) Describes the volatility of the historical returns of the fund. A higher standard deviation indicates more risk due to higher fluctuation above and below the average.	10.12%
Sharpe Ratio (5-Year) Measures returns generated per unit of risk taken. The higher the Sharpe Ratio, the more you are being compensated for the amount of risk you are taking.	0.58

Fund Restrictions

A 2.00% redemption fee is charged for shares sold within 90 days of purchase. The charge is applied on a first-in, first-out basis.

Asset Allocation Guidelines

	Minimum	Maximum	Target
Domestic Large/Medium Cap Equities: 30% to 55%			
Domestic Large Cap Equities (growth & value)	30%	55%	40-50%
Domestic Small/Medium Cap Equities: 5% to 30%			
Domestic Small/Mid Cap Equities (growth & value)	5%	20%	10-15%
International Equity	5%	15%	5-10%
Total Equity	50%	70%	60%
Real Estate	0%	5%	2-5%
Investment Grade Fixed Income	20%	30%	25-30%
Cash/Cash Equivalents	5%	15%	10%

	Minimum	Maximum	Target
Domestic Large/Medium Cap Equities: 30% to 70%			
Domestic Large Cap Equities (growth & value)	30%	70%	40%
Domestic Small/Medium Cap Equities: 0% to 30%			
Domestic Small/Mid Cap Equities (growth & value)	0%	20%	5%
International Equity	5%	20%	15%
Total Equity	50%	70%	60%
Real Estate	0%	5%	2-5%
Fixed Income	20%	50%	25-35%
Cash/Cash Equivalents	1%	15%	5%
Other Alternative Investments	0%	15%	0%

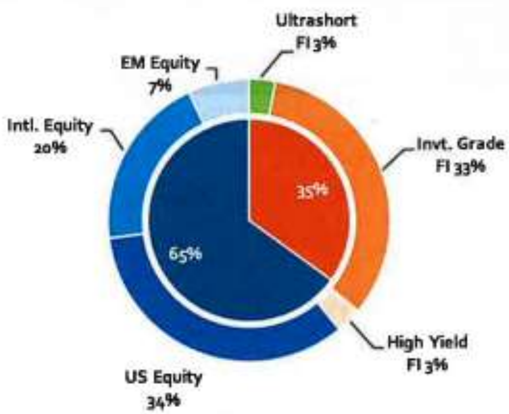
Portfolio Allocation

Hypothetical Performance Data Through December 31, 2023 — *Allocations as of April 19, 2024*

Global Investment Committee Asset Allocation Models

Traditional Assets Only (Level 0) — Market Growth **Model 4**

STRATEGIC ASSET ALLOCATION



BENCHMARK ALLOCATION*

Asset Class	Benchmark Index	Wt (%)
Ultrashort FI	FTSE US 3M T-Bill	0%
Fixed Income	Bloomberg US Aggregate	35%
Equity	MSCI All Country World	65%
Alternatives	Alternatives Blend	0%
Benchmark Total		**100%**

The table and pie chart located in the center of the image above represent the benchmark portfolio allocation. The GIC strategic portfolio allocation is represented by the table to the right and the donut chart located on the outside of the pie chart.

MODEL 4 FORECASTED STATISTICS

Forecasted Estimates**	Model 4
Bull Case	15.6%
Strategic Return (Base Case)	6.7%
Bear Case	-2.2%
Volatility	8.9%
Sharpe Ratio	0.32

MODEL 4 PORTFOLIO ALLOCATION

Asset Class	Benchmark Index	Strategic	Tactical	Difference
Ultrashort Fixed Income	**FTSE US Three-Month T-Bill Index**	3%	0%	-3%
US Large-Cap Growth	Russell 1000 Growth Index	14%	21%	7%
US Large-Cap Value	Russell 1000 Value Index	13%	15%	2%
US Mid-Cap Growth	Russell Midcap Growth Index	1%	1%	0%
US Mid-Cap Value	Russell Midcap Value Index	2%	2%	0%
US Small-Cap Growth	Russell 2000 Growth Index	2%	0%	-2%
US Small-Cap Value	Russell 2000 Value Index	2%	0%	-2%
International Equities	MSCI World ex-US Index (USD, U)	18%	17%	-1%
Japan	MSCI Japan Index (USD, U)	2%	0%	-2%
Asia-Pacific ex-Japan	MSCI Pacific ex-Japan Index (USD, U)	0%	0%	0%
Emerging Markets	MSCI Emerging Markets Index (USD, U)	7%	7%	0%
Total Equities		**61%**	**63%**	**2%**
Short-Term	Bloomberg US One- to Five-Year Govt./Credit Index	11%	8%	-3%
US Core	Bloomberg US Aggregate Index	20%	26%	6%
US Long-Term Treasuries	Bloomberg US 20+-Year Treasury Index	0%	3%	3%
International	Bloomberg Global Aggregate Non-USD Index	1%	0%	-1%
Inflation-Linked	Bloomberg US TIPS Index	1%	0%	-1%
High Yield	Bloomberg US High Yield Corporate Index	2%	0%	-2%
Emerging Markets	J.P. Morgan EMBI Global Index	1%	0%	-1%
Total Fixed Income		**36%**	**37%**	**1%**
Total Portfolio		**100%**	**100%**	**0%**

The weights herein are inspired by the Morgan Stanley Wealth Management Global Investment Committee (GIC)'s Asset Allocation Models (Level 0) but do not represent a GIC recommendation. The Strategic Allocation represents the blend of asset classes identified by the GIC, subject to various allocation constraints that the Committee believes is appropriate over the long run, for achieving maximum return potential for the level of risk tolerance associated with the Market Growth model (Model 4). The Tactical Allocation seeks to maximize potential returns, for the same risk tolerance, over a shorter period (generally approximately 12 months). The Tactical Allocation is adjusted more frequently than the Strategic Allocation, although both are subject to change at any time. The analyses in this profile are based on the Strategic Allocations. (H) Denotes the hedged version of an index, and (U) denotes the unhedged version of an index.

** Forecasted estimates are for illustrative purposes only, are based on proprietary models and are not indicative of the future performance of any specific investment, index or asset class. Actual performance may be more or less than the estimates shown in this table. Estimates of future performance are based on assumptions that may not be realized. Strategic return and volatility estimates are long-term estimates with a seven-year time horizon. Volatility estimates are based on data with longest available history to the end of the last full calendar year. Please refer to the GIC Annual Update of Capital Markets Assumptions paper.