

February 12, 2019

PERSONAL & CONFIDENTIAL

Ms. Rebecca Jerry
Otsego County Road Commission
P.O. Box 537
Gaylord, MI 49734

RE: Otsego County Road Commission Retiree Health Plan

Dear Becky:

Transmitted via email, this is a copy of your OPEB accounting report for the fiscal year ending December 31, 2018. This information is intended to assist you in complying with Governmental Accounting Standards Board Statement No. 74 (GASB 74) Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, and Statement No. 75 (GASB 75) Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

Since GASB 74/75 is new this year, please discuss these results with your accountants and let us know if additional information is needed.

If you have any questions about this report, please call me at (616) 742-9244.

Sincerely,



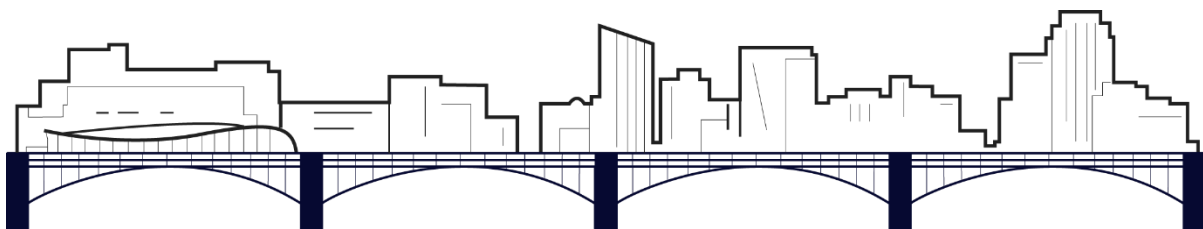
Christian R. Veenstra, ASA, MAAA, EA
President / Enrolled Actuary

Enclosure

Otsego County Road Commission Retiree Health Plan

Accounting Report

for the Period Ending December 31, 2018
under GASB Statement 74 & 75



Report presented by:



February 2019

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INTRODUCTION AND CERTIFICATION

The schedules included in this report have been prepared in order to provide the information necessary to comply with Governmental Accounting Standards Board (GASB) Statement No. 75. This information may, at the discretion of management of the plan sponsor and its auditor, be used for the preparation of its financial statements. The calculations herein have been made based on our understanding of GASB 75, and may be inappropriate for other purposes.

The calculations summarized in this report involve actuarial calculations that require assumptions about future events. We believe that the assumptions used in the report are within the range of possible assumptions that are reasonable and appropriate for the purposes for which they have been used. However, other assumptions are also reasonable and appropriate and their use would produce different results.

This report contains additional information and details related to plan provisions and recommended contribution calculations.

This report was prepared on the basis of participant data and asset values as reported to us by the plan sponsor. Watkins Ross relied upon the data as submitted, and has no reason to believe that any information, which would have a material effect on the results of this valuation, was not considered in the preparation of the report.

The actuary certifying this report represents herself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared by:



Lisa J. Hayes
Senior Pension Analyst

Certified by:



Leah A. Dudley, ASA, MAAA
Health Actuary

PLAN DESCRIPTION

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Otsego County Road Commission Retiree Health Plan and additions to/deductions from the Road Commission's fiduciary net position have been determined on the same basis as they are reported by the Otsego County Road Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Otsego County Road Commission Retiree Health Plan is a single employer plan established and administered by **Otsego County Road Commission** and can be amended at its discretion.

Benefits Provided

A summary of plan provisions is available on page 12.

Summary of Plan Participants

As of December 31, 2018, Retirement Plan membership consisted of the following:

Inactive plan members receiving or entitled to future benefits	37
Covered Spouse	20
Active plan members	<u>16</u>
Total participants	73

Contributions

The Otsego County Road Commission Retiree Health Plan was established and is being funded under the authority of the Road Commission. The plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. Currently, benefit payments are made from general operating funds. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The Road Commission's OPEB liability was measured as of December 31, 2018.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	included in investment rate of return
Salary increases	3.5%
Investment rate of return	7.00%
Uniform assumption for unfunded period	3.00%
Mortality	RPH-2014 adjusted to 2006 Total Data Set with MP-2018 mortality improvement

The long-term expected rate of return on retirement 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 retirement 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. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	63.2%	8.00%
Global Fixed Income	30.7	5.50
Real Assets	3.5	6.20
Diversifying Strategies	1.2	2.75
Cash	1.4	0.50

The sum of each target allocation times its long-term expected rate of return is 7.00%.

Discount Rate

The discount rate used to measure the total OPEB liability was **3.40%**. The projection of cash flows used to determine the discount rate assumed that Employer contributions \$400,000 will be made in the next four years. Based on those assumptions, the retirement plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting the Uniform Assumption for periods in which projected plan assets are not sufficient to make projected benefit payments. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. The discount rate used to value the liabilities as of December 31, 2017 was 3.40%.

NET OPEB LIABILITY

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at December 31, 2017	\$6,219,971 ¹	\$0	\$6,219,971
Changes during the Year			
Service Cost	84,409		84,409
Interest	208,495		208,495
Experience (Gains)/Losses	0		0
Change in plan terms	0		0
Change in actuarial assumptions	0		0
Contributions to OPEB trust		520,000	(520,000)
Contributions/benefit paid from general operating funds		344,330	(344,330)
Net Investment Income		(29,215)	29,215
Benefit Payments;			
Including Refunds of Employee Contributions	(344,330)	(344,330)	0
Administrative Expenses		(575)	575
Other Changes		<u>0</u>	<u>0</u>
Total Changes	(51,426)	490,210	(541,636)
Balance at December 31, 2018	\$6,168,545	\$490,210	\$5,678,335

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB liability (NOL) of the Road Commission, calculated using trend and discount rates 1% higher and lower than base assumptions:

	1% Decrease	Current Rate	1% Increase
<u>Discount</u>			
Total OPEB Liability	\$6,746,035	\$6,168,545	\$5,673,019
Plan Fiduciary Net Position	<u>490,210</u>	<u>490,210</u>	<u>490,210</u>
Net OPEB Liability	\$6,255,825	\$5,678,335	\$5,182,809
<u>Trend</u>			
Total OPEB Liability	\$5,664,102	\$6,168,545	\$6,747,558
Plan Fiduciary Net Position	<u>490,210</u>	<u>490,210</u>	<u>490,210</u>
Net OPEB Liability	\$5,173,892	\$5,678,335	\$6,257,348

¹ December 31, 2018 liability rolled back to January 1, 2018

OPEB EXPENSE

Components of Road Commission's OPEB Expense for the Fiscal Year Ending December 31, 2018

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending 12/31/2018
Service Cost	\$84,409
Interest on Total OPEB Liability	208,495
Experience (Gains)/Losses	0
Changes of Assumptions	0
Changes in plan terms	0
Employee Contributions	0
Projected Earnings on OPEB Plan Investments	(18,184)
Investment Earnings (Gains)/Losses	9,480
Administrative Expenses	575
Other Changes in Fiduciary Net Position	<u>0</u>
Total OPEB Expense	\$284,775

NET OPEB LIABILITY

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2018 is \$490,210.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	0	0
Changes of Assumptions	0	0
Investment Earnings (Gains)/Losses	<u>37,919</u>	<u>0</u>
Total	\$37,919	\$0

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,	Amount Recognized
2019	\$9,480
2020	9,480
2021	9,480
2022	9,479
2023	0
Thereafter	0

NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability December 31, 2017	\$6,219,971
Total OPEB expense	284,775
Contributions	(864,330)
Change in deferred outflows of resources	37,919
Change in deferred inflows of resources	<u>0</u>
Net OPEB Liability December 31, 2018	\$5,678,335

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	\$1,749,411
Inactive participants receiving benefits	<u>4,419,134</u>
Total	\$6,168,545

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending 12/31/2018	
Total OPEB Liability	
Service Cost	\$84,409
Interest	208,495
Changes of Benefit Terms	0
Difference between Expected and Actual Experience	0
Change of Assumptions	0
Benefit Payments (Including Refunds of Employee Contributions)	(344,330)
Net Change in Total OPEB Liability	(51,426)
Total OPEB Liability – Beginning	6,219,971
Total OPEB Liability – Ending (a)	6,168,545
Plan Fiduciary Net Position	
Contributions to OPEB trust	520,000
Contributions/benefit payments made from general operating funds	344,330
Net Investment Income	(29,215)
Benefit Payments (Including Refunds of Employee Contributions)	(344,330)
Administrative Expenses	(575)
Other	0
Net Change in Fiduciary Net Position	490,210
Plan Fiduciary Net Position – Beginning	0
Plan Fiduciary Net Position – Ending (b)	490,210
Net OPEB Liability – Ending (a)-(b)	\$5,678,335
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	7.9%
Covered Employee Payroll	Not available
Net OPEB Liability as Percentage of Payroll	Not available

Schedule of Employer Contributions

Actuarially Recommended Contribution (ARC)	Fiscal Year Ending September 30,	
	<u>2019</u>	<u>2018</u>
Normal cost	\$87,279	\$84,409
Amortization of unfunded liability	1,212,849 ¹	1,125,202
Interest cost	<u>44,204</u>	<u>41,127</u>
Actuarially Determined Employer Contribution	\$1,344,332	\$1,250,738
Employer Contribution (benefit payments)	TBD	<u>(864,330)</u>
Contribution Deficiency/(Excess)	TBD	\$386,408
Covered Employee Payroll	Not avail.	Not avail.
Contribution as a Percentage of Covered Payroll	Not avail.	Not avail.

¹ Based on 5-year, level dollar, amortization of unfunded liability; alternative funding scenarios could be considered

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Financial Information	2018
Assets (Fiduciary net position)	490,210
Liabilities (Total OPEB Liability)	6,168,545
Funded ratio for the Plan Year	7.9%
Actuarially recommended contribution (ARC)	1,250,738
Is ARC calculated in compliance with No. Letter 2018-3?	Yes

Membership	2018
Active members	16
Retirees and Beneficiaries	37
Premiums paid on behalf of the retirants	344,330

Actuarial Assumptions	2018
Actuarially assumed rate of investment return	7.00%
Discount rate	3.40%
Amortization method used for funding unfunded liability	Level dollar
Amortization period used for funding unfunded liability	6
Is each division closed to new employees	Yes
Healthcare trend assumption (see page 10 of this report)	PA 202 uniform trend

Uniform Assumptions	2018
Actuarial value of assets using uniform assumptions	490,210
Actuarial accrued liability using uniform assumptions	6,168,545
Funded ratio using uniform assumptions	7.9%
Actuarially determined contribution (ADC) using uniform assumptions	\$1,250,738

Information for Summary Report (minimum required contribution) ¹	2018
Retiree insurance premiums for the year (1)	344,330
Normal cost as a percent of covered payroll (2)	84,409
Covered payroll for employees hired after June 30, 2018 (3)	0 ²
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)	0
Minimum required contribution under PA 202 (1) + (4)	344,330

¹ Senate Bill 686 requires that a local unit must contribute at least both of the following – Normal cost for employees first hired after June 30, 2018 and retiree premiums that are due to retirants in the retirement system; In order to obtain 40% funding, higher contributions would be needed

² Employees hired after June 30, 2018 are not eligible for benefits under this plan

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods for Calculation of Actuarially Determined Contribution

Valuation date December 31, 2018

Actuarial Methods

Cost method	Entry Age Normal (level percentage of compensation)
Amortization method	Level dollar
Asset valuation method	Equal to market value of assets

Actuarial Assumptions

Discount rate – 3.40% for December 31, 2018 liability and 2019 contribution
Rationale – consistent with Uniform Assumptions under Public Act 202 for unfunded plans

Salary scale – 3.5%
Rationale – consistent with Uniform Assumptions under Public Act 202

Return on plan assets – 7.00%
Rationale – Consistent with plan investment experience

Mortality rates – RPH-2014 adjusted to 2006 Total Data Set with MP-2018 mortality improvement
Rationale – Contemporary table consistent with Uniform Assumptions under Public Act 202

Turnover rates – None
Rationale – small group

Retirement rates – 100% at first eligibility
Rationale – consistent with experience

Utilization – 100% of eligible employees will elect coverage at retirement
Rationale – Benefits are provided at no cost or low cost to retirees

Marital status – not applicable
Rationale – future retirees are not eligible for employer paid spouse coverage

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Pre-65 Medical claims cost – see monthly rates below

Rationale – actual age-graded premiums in effect as of January 1, 2019

Blue Care Network HRA	
Age	Per person
55	\$ 680.64
56	712.08
57	743.82
58	777.70
59	794.49
60	828.37
61	857.67
62	876.89
63	901.01
64	915.65

Post-65 Medical claims cost – see monthly rates below

Rationale – actual premiums in effect as of January 1, 2019

Coverage	Per person
Blue Care Network ¹	\$ 395.82
Humana	\$337.00

HRA load – \$4,500 per person pre-65

Rationale – maximum deductible reimbursement for pre-65 retirees and spouses

Implicit Subsidy – Not applicable

Rationale – Pre-65 premiums are age-graded so there is no implicit subsidy

Medical trend

Pre-65 – 8.5% graded down to 4.5% by 0.25% per year

Post-65 – 7.0% graded down to 4.5% by 0.25% per year

Rationale – consistent with Uniform Assumptions under Public Act 202

40% excise tax on “high cost” group health coverage – Premiums when aggregated are not projected to exceed the 2022 thresholds; The thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following

Data Collection

Date and form of data - All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

Assumption changes since prior valuation

- First valuation prepared by Watkins Ross

¹ Retirees retain Blue Care Network coverage until both retiree and spouse reach age 65

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year	Difference between expected and actual Experience	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	-	1.45	-	-	-	-	-	-	-
Net recognized in OPEB expense			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Schedule of Changes in Assumptions

Year	Changes in Assumptions	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	-	1.45	-	-	-	-	-	-	-
Net recognized in OPEB expense			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments

Year	Difference between expected and actual earnings on OPEB assets	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2018	2019	2020	2021	2022			2023+
2018	47,399	5	9,480	9,480	9,480	9,480	9,479	-	37,919	
Net recognized in OPEB expense			\$ 9,480	\$ 9,480	\$ 9,480	\$ 9,480	\$ 9,479	\$ -	\$ 37,919	\$ -

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023
Total Deferred Outflow/(Inflow) of Resources	\$ 9,480	\$ 9,480	\$ 9,480	\$ 9,479	\$ -

SUMMARY OF PLAN PROVISIONS

Plan name	Otsego County Road Commission Retiree Health Plan
Eligibility	Hired prior to December 31, 2008 and retire with at least 20 years of employment and age 55 years
Benefits¹	
Retirement prior to 2011	Lifetime health coverage for the retiree and spouse
Retirement from 2011 through 2015	
Pre-65	Coverage for the retiree and spouse and annual reimbursement of deductible up to \$4,500 per person
Post-65	Employer paid supplemental coverage for the retiree and spouse capped at \$350 per month per person
Retirement after 1/1/2016	
Pre-65	Coverage for the retiree and annual reimbursement of deductible up to \$4,500
Post-65	None
Retiree contribution	Balance of premium not paid by the employer
Changes since prior valuation	First valuation prepared by Watkins Ross

¹ One retiree has separately negotiated coverage

GLOSSARY

A number of special terms and concepts are used in connection with OPEB plans and the OPEB accounting report. The following list reviews a number of these terms and provides a brief discussion of their meaning.

Accrued Benefit - Each participant has an accrued benefit under the plan. This is the amount of monthly benefit already earned. It is based on past employment with the Employer and is payable at normal retirement.

Actuarial Cost Method - This is a mathematical formula which is used to allocate the present value of projected benefits to past and future plan years.

Amortization – The difference between actual and expected investment returns, the difference between actual and expected experience, and the impact of any plan or assumption changes will be amortized and paid over future years.

Depletion Date (Cross-over Point) – The projected date (if any) where plan assets, including future contributions, are no longer sufficient to pay Projected Benefit Payments to current members.

Long-term expected rate of return – The rate of return based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

Market Value of Assets – The market value of all assets in the fund including any accrued contribution for the previous plan year, which was not paid by the end of the year.

Measurement Date – The date the Total OPEB Liability, Fiduciary Net Position, and Net OPEB Liability are determined.

Net OPEB Liability (NOL) – The Total OPEB Liability less the Plan Fiduciary Net Position.

Plan Fiduciary Net Position – The market value of plan assets as of the measurement date.

OPEB Expense (OE) – The change in the Net OPEB Liability (NOL) recognized in the current measurement period. Changes to the NOL not fully recognized in a given year's OPEB expense will be maintained as deferred inflows and deferred outflows. These will be recognized incrementally in the OPEB expense over time.

Present Value - The present value of a future payment or a series of payments is the amount of each payment, discounted to recognize the time value of money, and further reduced for the probability that the payment might not be made because of death, disability or termination of employment.

Present Value of Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current accrued benefits.

GLOSSARY

Present Value of Vested Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current vested benefits.

Projected Benefit Obligation - The value of benefits earned to the measurement date, but based on anticipated salary levels at retirement, computed in accordance with Generally Accepted Accounting Principles (GAAP) accounting rules.

Projected Benefit Payments – All benefits projected to be payable to current active and inactive participants as a result of their past service and their expected future service.

Real Rate of Return – The rate of return on an investment after the adjustment to eliminate inflation.

Service Cost - The value of benefits earned during the current year computed in accordance with GAAP accounting rules.

Single Equivalent Discount Rate – The single rate that gives the same total present value as discounting the Projected Benefit Payments with the long-term expected rate of return until the Depletion Date and discounting any remaining Projected Benefit Payments with the yield on a 20-year AA/Aa tax-exempt municipal bond index.

Total OPEB Liability (TOL) – The actuarial present value of the accrued benefit determined under the Entry Age actuarial cost method calculated using the blended Single Equivalent Discount Rate.