

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

The Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commission’s group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement #45 required disclosures which have been implemented prospectively by the Road Commission.

- Employees hired prior to December 31, 2008, and retire with 20 years of employment and age 55 years, or greater, will receive health insurance comparable to that provided to the current employees until age 65 years and supplemental health insurance for the employee and spouse for their lifetimes.

The plan does not issue a separate stand-alone financial statement.

Annual OPEB Cost and Net OPEB Obligation. The Road Commission’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). The only current contributions made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

Funding Progress. For the year ended December 31, 2016, the Road Commission has determined an estimated cost of providing post employment benefits through an actuarial measurement method of calculation as of December 31, 2015. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years. For fiscal year 2016, the Road Commission contributed \$351,478 to the plan, including member contributions of \$2,836.

The Road Commission’s computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 307,622
Interest on net OPEB obligation	<u>325,930</u>
Annual OPEB cost (expense)	633,552
Contributions made	<u>(351,478)</u>
Increase in net OPEB obligation	282,074
Net OPEB obligation – beginning of year	<u>8,148,256</u>
Net OPEB obligation – end of year	<u>\$ 8,430,330</u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2015 and 2016 are as follows:

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,221,411	25.75%	\$ 8,138,731
2015	\$ 319,151	97.02%	\$ 8,148,256
2016	\$ 633,552	55.40%	\$ 8,430,330

Funded Status and Funding Progress: As of December 31, 2015, the actuarial accrued liability for benefits was \$6,088,899, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,103,398, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 552%.

Actuarial Methods and Assumptions: 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Assumptions About Employees and Members: Based on historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 55 and 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 2007 Version – United States Life Tables. The probability of remaining employed until the assumed retirement age and employees expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2015 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums were based on the 2005 – 2020 version of the National Health Expenditures projection.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission’s investments, the investment rate of return was assumed to be 4.0%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission.