

# City of Mount Clemens Retiree Health Care Program

GASB Statement Nos. 74 and 75, Accounting and Financial  
Reporting for Postemployment Benefits Other Than Pensions  
June 30, 2018



October 5, 2018

Board of Trustees  
City of Mount Clemens Retiree Health Program

Dear Trustees:

This report provides information on behalf of the City of Mount Clemens Retiree Health Program in connection with the Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. GASB Statement No. 74 is the accounting standard, which applies to other postemployment benefits (OPEB) plans that are administered through trusts or equivalent arrangements. GASB Statement No. 75 establishes accounting and financial reporting requirements for state and local government employers that provide their employees with postemployment benefits other than pensions.

The calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB Statement Nos. 74 and 75. The calculation of the plan's liability for this report is not applicable for funding purposes of the plan. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB Statement Nos. 74 and 75 may produce significantly different results. This report may be provided to parties other than the City of Mount Clemens Retiree Health Program only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

This report is based upon information, furnished to us by the City, concerning other postemployment benefits (OPEB), active members, deferred vested members, retirees and beneficiaries, and financial data. This information was checked for internal consistency, but it was not audited by us.

The Total OPEB Liability (TOL), the net OPEB liability and certain sensitivity information shown in this report are based on an actuarial valuation of the Plan performed as of June 30, 2017. The TOL was "rolled forward" from June 30, 2017 to June 30, 2018 using generally accepted actuarial principles. There were no significant adjustments made to the "rolled forward" liabilities.


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; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

Based on the available data, the information contained in this report is accurate and fairly represents the actuarial position of the City of Mount Clemens Retiree Health Program as of the reporting date. All calculations have been made in conformity with generally accepted actuarial principles and practices as well as the Actuarial Standards of Practice. Louise Gates and James D. Anderson are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The signing individuals are independent of the plan sponsor.

Respectfully submitted,



Louise Gates, ASA, FCA, MAAA



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

LG/JDA

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# SECTION A

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## EXECUTIVE SUMMARY

# Executive Summary as of June 30, 2018

	<b>2018</b>
Actuarial Valuation Date	June 30, 2017
Measurement Date of the Net OPEB Liability	June 30, 2018
Employer's Fiscal Year Ending Date (Reporting Date)	June 30, 2018

## Membership

Number of <sup>#</sup>	
- Retirees and Beneficiaries	142
- Inactive, Nonretired Members	9
- Active Members	62
- Total	213

## Net OPEB Liability

Total OPEB Liability	\$ 51,888,995
Plan Fiduciary Net Position	149,258
Net OPEB Liability	\$ 51,739,737
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.29 %

## Development of the Single Discount Rate

Single Discount Rate	3.62 %
Long-Term Municipal Bond Rate*	3.62 %

<b>Total OPEB Expense</b>	<b>\$ 2,697,363</b>
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## Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 61,787
Changes in assumptions	0	0
Net difference between projected and actual earnings on OPEB plan investments	1,954	0
<b>Total</b>	<b>\$ 1,954</b>	<b>\$ 61,787</b>

<sup>#</sup> As of the Actuarial Valuation Date. GRS does not have the membership counts as of June 30, 2018. City staff and auditors may decide that providing membership counts as of the valuation date is sufficient to meet the GASB disclosure requirements. Alternatively, the City may decide to update the membership counts to be as of the Plan's fiscal year end.

\* Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 29, 2018. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.

# Discussion

## Accounting Standard

For post-employment (OPEB) benefit plans that are administered through trusts or equivalent arrangements, Governmental Accounting Standards Board (GASB) Statement No. 74, “Financial Reporting for Postemployment Benefit Plans other than Pension Plans,” replaces the requirements of GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”. Similarly, GASB Statement No. 75 establishes standards for state and local government employers (as well as non-employer contributing entities) to account for and disclose net OPEB liability, OPEB expense, and other information associated with providing OPEB to their employees (and former employees) on their financial statements.

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016 and June 15, 2017, respectively.

The following discussion provides a summary of the information that is required to be disclosed under these accounting standards. A number of these disclosure items are provided in this report. However, certain information, such as notes regarding accounting policies and investments, is not included in this report. As a result, the plan sponsor will be responsible for preparing and disclosing the non-actuarial information needed to comply with these accounting standards.

## Financial Statements

GASB Statement No. 75 requires state and local government employers to recognize the net OPEB liability and the OPEB expense on their financial statements, along with the related deferred outflows and inflows of resources. The net OPEB liability is the difference between the total OPEB liability and the plan’s fiduciary net position. In traditional actuarial terms, this is analogous to the accrued liability less the market value of assets.

GASB Statement No. 75 states the employer contributions made to the OPEB plan subsequent to the measurement date and before the end of the employer’s reporting period should be reported as a deferred outflow of resources. The information contained in this report does not incorporate any employer contributions made subsequent to the measurement date of June 30, 2018.

The OPEB expense recognized each fiscal year is equal to the change in the net OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of the liability and investment experience.

GASB Statement No. 74 requires defined benefit OPEB plans which are administered as trusts or equivalent arrangements to present two financial statements: a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the assets and liabilities of the OPEB plan at the end of the OPEB plan's reporting period. The statement of changes in fiduciary net position presents the additions, such as contributions and investment income, and deductions, such as benefit payments and expense, and net increase or decrease in the fiduciary net position.

## Notes to Financial Statements

GASB Statement No. 75 requires the notes of the employer's financial statements to disclose the total OPEB expense, the OPEB plan's liabilities and assets, and deferred outflows of resources and inflows of resources related to OPEB.

GASB Statement Nos. 74 and 75 require the notes of the financial statements for employers and OPEB plans to include certain additional information. The list of disclosure items should include:

- the name of the OPEB plan, the administrator of the OPEB plan; and the identification of whether the OPEB plan is a single-employer, agent, or cost-sharing OPEB plan;
- a description of the benefits provided by the plan;
- a brief description of changes in benefit terms or assumptions that affected the measurement of the total OPEB liability since the prior measurement date;
- the number of plan members by category and if the plan is closed;
- a description of the plan's funding policy, which includes member and employer contribution requirements;
- the OPEB plan's investment policies;
- the OPEB plan's fiduciary net position and the net pension liability;
- the net OPEB liability using +/- 1% on the discount rate;
- the net OPEB liability using +/- 1% on the healthcare trend rate;
- significant assumptions and methods used to calculate the total pension liability;
- inputs to the discount rates; and
- certain information about mortality assumptions and the dates of experience studies.

OPEB plans that are administered through trusts or equivalent arrangements are required to disclose additional information in accordance with GASB Statement No. 74. This information includes:

- the composition of the OPEB plan's Board and the authority under which benefit terms may be amended;
- a description of how fair value is determined;
- information regarding certain reserves and investments, which include concentrations of investments greater than or equal to 5%, receivables, and insurance contracts excluded from plan assets; and
- annual money-weighted rate of return.



## Required Supplementary Information

GASB Statement No. 74 requires a 10-year fiscal history of:

- Sources of changes in the net OPEB liability.
- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percent of covered-employee payroll.
- Comparison of the actual employer contributions to the actuarially determined contributions based on the plan's funding policy.
- For plans with an actuarially determined contribution, the schedule covering each of the 10 most recent fiscal years of the actuarially determined contribution, contributions to the OPEB plan and related ratios.

## Frequency and Timing of the Actuarial Valuation

An actuarial valuation to determine the total OPEB liability is required to be performed at least every two years. For the employer's financial reporting purposes, the net OPEB liability and OPEB expense should be measured as of the employer's "measurement date," which may not be earlier than the employer's prior fiscal year end-date. If the actuarial valuation used to determine the total pension liability is not calculated as of the measurement date, the total OPEB liability is required to be rolled forward from the actuarial valuation date to the measurement date.

The total OPEB liability shown in this report is based on an actuarial valuation performed as of June 30, 2017 and a measurement date of June 30, 2018.

## Single Discount Rate

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 3.62%; the municipal bond rate is 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index").

## Actuarial Assumptions

The actuarial assumptions used to value the liabilities are outlined in detail in Section H. The assumptions include details on the healthcare trend assumption, the aging factors, as well as the cost method used to develop the OPEB expense.

## Future Uncertainty or Risk

Future results may differ from those anticipated in this valuation. Reasons include, but are not limited to:

- Actual medical trend differing from expected;
- Changes in the healthcare plan designs offered to active and retired members; and
- Participant behavior differing from expected, e.g.,
- Elections at retirement;
- One-person versus two-person coverage elections; and
- Time of retirement or termination.

## Benefits Valued

The benefit provisions that were valued are described in Section E. The valuation is required to be performed on the current benefit terms and existing legal agreements. Consideration is to be given to the written plan document as well as other communications between the employer and plan members and an established pattern of practice for cost sharing. The summary of major plan provisions is designed to outline principal plan benefits. If the plan summary is not in accordance with the actual provisions, please alert the actuaries immediately, so they can both be sure the proper provisions are valued.

## Effective Date and Transition

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016, and June 15, 2017, respectively.

## SECTION B

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### FINANCIAL STATEMENTS

Auditor's Note – The actuarial information in this section of the report is intended to assist in preparation of the financial statements of the City of Mount Clemens Retiree Health Program. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

# Statement of OPEB Expense under GASB Statement No. 75

## Fiscal Year Ended June 30, 2018

### A. Expense

1. Service Cost	\$	899,277
2. Interest on the Total OPEB Liability		1,830,057
3. Current-Period Benefit Changes		0
4. Employee Contributions (made negative for addition here)		0
5. Projected Earnings on Plan Investments (made negative for addition here)		(2,697)
6. OPEB Plan Administrative Expense		1,008
7. Other Changes in Plan Fiduciary Net Position		0
8. Recognition of Outflow (Inflow) of Resources due to Liabilities		(30,771)
9. Recognition of Outflow (Inflow) of Resources due to Assets		489
<b>10. Total OPEB Expense</b>	<b>\$</b>	<b>2,697,363</b>

### Recognition of Deferred Outflows and Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the expected remaining service lives of all active employees in the plan was approximately 641 years. Additionally, the total plan membership (active employees and inactive employees) was 213. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the current measurement period is 3.008 years.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

# Statement of Outflows and Inflows Arising from Current Reporting Period

## Fiscal Year Ended June 30, 2018

### A. Outflows (Inflows) of Resources due to Liabilities

1. Difference between expected and actual experience of the Total OPEB Liability (gains) or losses	\$	(92,558)
2. Assumption Changes (gains) or losses	\$	0
3. Recognition period for Liabilities: Average of the expected remaining service lives of all employees {in years}		3.0080
4. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for the difference between expected and actual experience of the Total OPEB Liability	\$	(30,771)
5. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for assumption changes	\$	0
6. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Liabilities	\$	(30,771)
7. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for the difference between expected and actual experience of the Total OPEB Liability	\$	(61,787)
8. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for assumption changes	\$	0
9. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Liabilities	\$	(61,787)

### B. Outflows (Inflows) of Resources due to Assets

1. Net difference between projected and actual earnings on OPEB plan investments (gains) or losses	\$	2,443
2. Recognition period for Assets {in years}		5.0000
3. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Assets	\$	489
4. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Assets	\$	1,954

# Statement of Outflows and Inflows Arising from Current and Prior Reporting Periods

## Fiscal Year Ended June 30, 2018

### A. Outflows and Inflows of Resources by Source to be Recognized in Current OPEB Expense

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 30,771	\$ (30,771)
2. Assumption changes	0	0	0
3. Net difference between projected and actual earnings on OPEB plan investments	489	0	489
<b>4. Total</b>	<b>\$ 489</b>	<b>\$ 30,771</b>	<b>\$ (30,282)</b>

### B. Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 61,787	\$ (61,787)
2. Assumption changes	0	0	0
3. Net difference between projected and actual earnings on OPEB plan investments	1,954	0	1,954
<b>4. Total</b>	<b>\$ 1,954</b>	<b>\$ 61,787</b>	<b>\$ (59,833)</b>

### C. Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future OPEB Expenses

Year Ending June 30	Net Deferred Outflows of Resources
2019	\$ (30,282)
2020	(30,282)
2021	244
2022	487
2023	0
Thereafter	0
<b>Total</b>	<b>\$ (59,833)</b>

Employer contributions that were made subsequent to the measurement date of the net OPEB liability and prior to the end of the employer's reporting period should be reported by the employer as a deferred outflow of resources related to OPEB. The information contained in this report does not incorporate any contributions made subsequent to the measurement date.

See paragraph 44 of GASB 75 for single and agent employers with trusted plans.

Also, Question 4.32 of Implementation Guide No. 2017-1 provides additional guidance for trusted plans.

## Statement of Fiduciary Net Position as of June 30, 2018

	<b>2018</b>
<b>Assets</b>	
Cash and Deposits	\$ 0
Receivables	
Accounts Receivable - Sale of Investments	\$ 0
Accrued Interest and Other Dividends	0
Contributions	0
Accounts Receivable - Other	0
Total Receivables	\$ 0
Investments	
Fixed Income	\$ 0
Domestic Equities	150,251
International Equities	0
Real Estate	0
Other - Diversified Investment Pool	0
Total Investments	\$ 150,251
<b>Total Assets</b>	<b>\$ 150,251</b>
<b>Liabilities</b>	
Payables	
Accounts Payable - Purchase of Investments	\$ 0
Accrued Expenses	0
Accounts Payable - Other	993
Total Liabilities	\$ 993
<b>Net Position Restricted for OPEB</b>	<b>\$ 149,258</b>

## Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2018

	<b>2018</b>
<b>Additions</b>	
Contributions	
Employer*	\$ 1,854,442
Nonemployer contributing entities	0
Active Employees	0
Other	0
<b>Total Contributions</b>	<b>\$ 1,854,442</b>
Investment Income	
Net Depreciation in Fair Value of Investments	\$ (1,033)
Interest and Dividends	1,287
Less Investment Expense	0
<b>Net Investment Income</b>	<b>\$ 254</b>
Other	\$ 0
<b>Total Additions</b>	<b>\$ 1,854,696</b>
 <b>Deductions</b>	
Benefit Payments*	\$ 1,704,430
OPEB Plan Administrative Expense	1,008
Other	0
<b>Total Deductions</b>	<b>\$ 1,705,438</b>
<b>Net Increase in Net Position</b>	<b>\$ 149,258</b>
 <b>Net Position Restricted for OPEB</b>	
Beginning of Year	\$ 0
End of Year	<b>\$ 149,258</b>

\* Includes amounts contributed and paid outside the trust.



## SECTION C

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### **REQUIRED SUPPLEMENTARY INFORMATION**

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Mount Clemens Retiree Health Program. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

## Schedules of Required Supplementary Information

### Schedule of Changes in Net OPEB Liability and Related Ratios Multiyear

Fiscal year ending June 30,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total OPEB liability</b>										
Service cost	\$ 899,277									
Interest on the total OPEB liability	1,830,057									
Changes of benefit terms	0									
Difference between expected and actual experience	(92,558)									
Changes of assumptions	0									
Benefit payments*	(1,704,430)									
<b>Net change in total OPEB liability</b>	932,346									
<b>Total OPEB liability - beginning</b>	50,956,649									
<b>Total OPEB liability - ending (a)</b>	\$ 51,888,995									
<b>Plan fiduciary net position</b>										
Employer contributions*	\$ 1,854,442									
Nonemployer contributing entities contributions	0									
Employee contributions	0									
OPEB plan net investment income	254									
Benefit payments*	(1,704,430)									
OPEB plan administrative expense	(1,008)									
Other	0									
<b>Net change in plan fiduciary net position</b>	149,258									
<b>Plan fiduciary net position - beginning</b>	0									
<b>Plan fiduciary net position - ending (b)</b>	\$ 149,258									
<b>Net OPEB liability - ending (a) - (b)</b>	\$ 51,739,737									
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	0.29 %									
<b>Covered-employee payroll</b>	N/A									
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	N/A									

**Notes to Schedule:**

\* Includes amounts contributed and paid outside of the trust.

## Schedules of Required Supplementary Information Schedule of the Net OPEB Liability Multiyear

FY Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as a % of Total OPEB Liability	Covered Payroll	Net OPEB Liability as a % of Covered Payroll
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018	\$ 51,888,995	\$ 149,258	\$ 51,739,737	0.29 %	N/A	N/A

## Schedule of Contributions Multiyear Last 10 Fiscal Years

<u>FY Ending June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					

Based on the funding policy and the scope of this valuation, no actuarially determined employer contribution is available for fiscal year end June 30, 2018. Based on the provisions of GASB Statement No. 75, paragraph 57(c), this schedule is not required.

## Notes to Schedule of Contributions

Based on the funding policy and the scope of this valuation, no actuarially determined employer contribution is available for fiscal year end June 30, 2018. The assumptions and methods used to determine the Total OPEB Liability shown in this report are provided in section H of this report.

## Schedule of Investment Returns Multiyear Last 10 Fiscal Years

<u>FY Ending June 30,</u>	<u>Annual Return<sup>1</sup></u>
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	

<sup>1</sup> To be provided by the Plan

## SECTION D

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### NOTES TO FINANCIAL STATEMENTS

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Mount Clemens Retiree Health Program. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

## Summary of Membership Information<sup>#</sup>

The following table provides a summary of the number of participants in the plan:

Retired Plan Members or Beneficiaries Currently Receiving Benefits	142
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	9
Active Plan Members	<u>62</u>
Total Plan Members	213

*<sup>#</sup>As of the Actuarial Valuation Date. GRS does not have the membership counts as of June 30, 2018. City staff and auditors may decide that providing membership counts as of the valuation date is sufficient to meet the GASB disclosure requirements. Alternatively, the City may decide to update the membership counts to be as of the Plan's fiscal year end.*



## Sensitivity of Net OPEB Liability

As required by GASB Statement No. 74, we have determined the sensitivity of the net OPEB liability to changes in the Single Discount Rate. The following table presents the plan’s net OPEB liability, calculated using a Single Discount Rate of 3.62%, as well as what the plan’s net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

### Sensitivity of Net OPEB Liability to the Single Discount Rate Assumption

As of June 30, 2018

1% Decrease	Current Single Discount Rate Assumption	1% Increase
2.62%	3.62%	4.62%
\$ 59,597,418	\$ 51,739,737	\$ 45,639,368

As required by GASB Statement No. 74, we have determined the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following table presents the plan’s net OPEB liability, calculated using the assumed trend rates as well as what the plan’s net OPEB liability would be if it were calculated using trend rates that are one percent lower or one percent higher:

### Sensitivity of Net OPEB Liability to the Healthcare Cost Trend Assumption

As of June 30, 2018

1% Decrease	Current Healthcare Cost Trend Assumption	1% Increase
\$ 45,699,103	\$ 51,739,737	\$ 59,141,083

# SECTION E

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## SUMMARY OF BENEFITS

## Summary of Benefits

Employee Group	Spousal Coverage		Retiree/Spousal Coverage					Benefit provided by City
	While Retiree is Alive	After Retiree's Death	Regular Retirement	Deferred Retirement	Death in Service (Spousal Coverage)	Disability Retirement (Duty) (Non-Duty)		
Clerical Union Hired after 5/12/94	Yes	Yes, if contingent form of pension is elected	Age 55 w/20 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Clerical Union Hired on or before 5/12/94	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination
Crew Leader Union Hired after 7/1/93	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/20 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Crew Leader Union Hired on or before 7/1/93	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination
DPW Union Hired after 7/1/95	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/20 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
DPW Union Hired on or before 7/1/95	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Local 838 Firefighters Hired before 1/1/95	Yes	Yes, if contingent form of pension is elected	Age 50 w/10 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Local 838 Firefighters Hired after 1/1/95	Yes	Yes, if contingent form of pension is elected	Age 50 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination

\* Health benefits begin when pension benefits commence. It is assumed that vesting occurs with attainment of 10 years of service for all groups.

## Summary of Benefits (Concluded)

Employee Group	Spousal Coverage		Retiree/Spousal Coverage					Benefit provided by City
	While Retiree is Alive	After Retiree's Death	Regular Retirement	Deferred Retirement	Death in Service (Spousal Coverage)	Disability Retirement (Duty)	Disability Retirement (Non-Duty)	
POAM Retired on or after 11/6/95	Yes	Yes, if contingent form of pension is elected	Age 50 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination
COAM (Sergeants) Retired on or after 5/8/00	Yes	Yes, if contingent form of pension is elected	Age 50 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination
COAM (Lieutenants) Retired on or after 3/3/03	Yes	Yes, if contingent form of pension is elected	Age 50 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination
Administrative Employees	Yes	Yes, if contingent form of pension is elected	Age 50 w/25 yrs. or Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Court	Yes	Yes, if contingent form of pension is elected	Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	100% of premium
Police Dispatchers Retired on or after 12/4/95	Yes	Yes, if contingent form of pension is elected	Age 55 w/10 yrs. of service	Yes*	Yes	Yes	Yes	Varies based on service at retirement or termination

\* Health benefits begin when pension benefits commence. It is assumed that vesting occurs with attainment of 10 years of service for all groups.

Note: This valuation of the Retiree Health Program includes retirees and terminated vested members from the former Police and Court employee divisions but no current employees from these divisions.

## SECTION F

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### DEVELOPMENT OF BASELINE PER CAPITA COSTS

## Development of Baseline Per Capita Costs

Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). As of July 1, 2016, the City switched to a self-funded insurance model for pre-65 retiree health care. However, due to the small size of the plan and the lack of credible experience, the illustrative rates were utilized to determine the appropriate premium rates. These illustrative premium rates are at the level that would be appropriate for retirees not yet eligible for Medicare and therefore, are used as the basis of the initial per capita cost without need for demographic adjustment. For the post-65 retirees, the fully-insured premium rate that would be applicable to retirees eligible for Medicare is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of Medicare eligible members.

For the current active employees, the only plan available upon retirement is BCBS Division 0024 (Division 604 at Medicare eligibility). We have developed separate premium rates for future retirees in order to reflect the benefit differences.

Retirees were also given a voluntary option to receive an annual cash payment of \$500 in order to increase the prescription drug copay portion of their health care plan. An adjustment to the rates has been made to account for this payment.

The post-65 BCBS plans are Medicare Advantage programs. In a Medicare Advantage Program, the liability is based on the difference between the present value of future claims minus the present value of future reimbursements from CMS. Each of these items will experience future growth under arguably differing forces. Recently announced changes to the Medicare Advantage program will most likely result in decreases in the reimbursements from CMS within the next few years. This, in turn, will cause the net employer cost to trend upward at a rate above usual market trends for healthcare costs. When the plan is insured, this effect is buried in the rates being charged by the insurer. To account for this expectation, we have increased the Medicare rates to account for the expected CMS reimbursement lagging behind medical increases. This adjustment will be revisited at the time of the next valuation.

Age graded and sex distinct premiums are utilized by this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific premiums more accurately reflect the health care utilization and cost at that age.

The combined monthly one-person medical and drug premiums at select ages are shown below.

**Current Retirees**  
**Monthly Premiums for One Individual**

<b>For Those Not Eligible for Medicare (Pre-65)</b>		
<b>Age</b>	<b>Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
50	\$ 633.27	\$ 780.13
60	1,076.28	1,059.76
64	1,308.78	1,235.14

<b>For Those Eligible for Medicare (Post-65)</b>		
<b>Age</b>	<b>Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
65	\$ 541.87	\$ 511.10
75	633.99	618.64
85	670.41	678.30

**Future Retirees from Terminated Vested Status**  
**Monthly Premiums for One Individual**

<b>For Those Not Eligible for Medicare (Pre-65)</b>		
<b>Age</b>	<b>Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
50	\$ 633.27	\$ 780.13
60	1,076.28	1,059.76
64	1,308.78	1,235.14

<b>For Those Eligible for Medicare (Post-65)</b>		
<b>Age</b>	<b>Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
65	\$ 541.87	\$ 511.10
75	633.99	618.64
85	670.41	678.30

**Future Retirees, Current City Employees  
Monthly Premiums for One Individual**

<b>For Those Not Eligible for Medicare (Pre-65)</b>		
<b>Age</b>	<b>Current &amp; Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
50	\$ 623.87	\$ 768.55
60	1,060.30	1,044.03
64	1,289.35	1,216.80

<b>For Those Eligible for Medicare (Post-65)</b>		
<b>Age</b>	<b>Future Retirees</b>	
	<b>Male</b>	<b>Female</b>
65	\$ 426.78	\$ 402.54
75	499.33	487.23
85	528.01	534.23

The undersigned is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

*James E. Pranschke*

James E. Pranschke, FSA, MAAA



## **SECTION G**

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### **SUMMARY OF PARTICIPANT DATA**

## Summary of Participant Data

### Active Members as of June 30, 2017

Census Year	Active Members	Average	
		Age	Service
2017	62	47.8 yrs.	12.9 yrs.

### Inactive Members as of June 30, 2017

Census Year	Deferred Members*	Average
		Age
2017	16	48.3 yrs.

### Retired Members as of June 30, 2017

Census Year	Retired Members*	Average
		Age
2017	190	70.7 yrs.

\* Includes 22 individuals who elected cash in lieu of retiree health benefits, 3 individuals who opted out of retiree health benefits, 21 individuals who receive no retiree health benefits, and 2 covered under spouse. In addition, 7 deferred Plan members were reported as ineligible for Plan benefits as of the valuation date.

## **SECTION H**

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### **VALUATION METHODS AND ACTUARIAL ASSUMPTIONS**

## Valuation Methods

Under the Entry Age actuarial cost method, a level percent of payroll contribution consists of two components:

*Normal Cost* (the present value of future benefits assigned to members' service rendered in the current year)

**PLUS**

Amortization of the *Unfunded Actuarial Accrued Liability* (the difference between the present value of future benefits assigned to members' past service and the value of the plan's accumulated assets)

**The normal cost** was computed as follows:

The series of contributions necessary to accumulate the present value at time of retirement of an employee's health benefits was computed so that each contribution in the series, from entry age to retirement, was a constant percentage of the employee's year-by-year projected covered compensation.

**The accrued liability** was computed as follows:

Retirees: The discounted value of health benefits likely to be paid for retirees was computed using the investment return, health cost increase and mortality assumptions on the following pages.

Active Employees: The discounted value of health benefits likely to be paid for active employees was computed using the assumptions outlined on the following pages and was reduced by the value of normal costs to be paid for service after the valuation date.

## Actuarial Assumptions Used for the Valuation

**Investment return** (net of expenses).

3.62% per year compounded annually. This assumption is used to equate the value of payments due at different points in time.

**Pay Projections.** This assumption is used to project current pays to those upon which future contributions will be based.

Sample Ages	General City			Years of Service	Fire		
	Merit & Seniority	Base Economic	Increase Next Year		Merit & Seniority	Base (Economic)	Increase Next Year
20	5.80 %	3.50 %	9.30 %	1	23.60 %	3.50 %	27.10 %
25	4.60	3.50	8.10	2	3.30	3.50	6.80
30	3.20	3.50	6.70	3	3.80	3.50	7.30
35	2.50	3.50	6.00	4+	1.00	3.50	4.50
40	2.10	3.50	5.60				
45	1.80	3.50	5.30				
50	1.30	3.50	4.80				
55	1.00	3.50	4.50				
60	0.70	3.50	4.20				
65	0.00	3.50	3.50				

## Actuarial Assumptions Used for the Valuation

**The mortality table (a risk assumption)** used was the RP-2000 Male & Female Healthy Life Mortality Tables, adjusted for mortality improvements to 2020 using projection scale AA. Sample values follow:

Sample Attained Ages	Single Life Retirement Values	
	Future Life Expectancy (years)	
	Men	Women
50	32.77	34.63
55	28.04	29.88
60	23.47	25.31
65	19.17	21.02
70	15.22	17.06
75	11.58	13.47
80	8.42	10.23

This assumption is used to measure the probabilities of employees dying before retirement and the probabilities of each health insurance premium being paid after retirement. Mortality rates were adjusted to include margin for future mortality improvement as described above.

The RP-2000 Male & Female Healthy Life Mortality Tables, adjusted for mortality improvements to 2020 using projection scale AA with a five year set forward was used for disabled lives.

## Actuarial Assumptions Used for the Valuation

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

Retirement Ages	Retirement Rates	
	General	Fire
50	18 %	30 %
51	18	20
52	18	25
53	18	20
54	18	35
55	18	50
56	18	35
57	18	30
58	18	25
59	18	50
60	18	100
61	18	
62	18	
63	18	
64	18	
65	20	
66	18	
67	18	
68	40	
69	35	
70	100	

## Actuarial Assumptions Used for the Valuation

*Rates of disability* were as follows:

Sample Ages	% of Active Members Becoming Disabled within Next Year
20	0.08 %
25	0.08
30	0.08
35	0.08
40	0.20
45	0.27
50	0.49
55	0.89
60	1.41

*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.

Sample Ages	Years of Service	% of Active Members Separating within Next Year	
		General City	Fire
ALL	0	18.00 %	10.00 %
	1	13.00	7.00
	2	8.00	5.00
	3	7.00	4.00
	4	6.00	3.50
20	5 & Over	5.00	3.50
25		5.00	3.50
30		5.00	2.90
35		4.00	1.50
40		1.50	0.60
45		1.00	0.50
50		1.00	0.50
55		1.00	0.50
60		1.00	-
65		1.00	-



## Actuarial Assumptions Used for the Valuation

### *Health cost increases*

Year Beginning July 1 <sup>st</sup>	Medical and Drug Trend Rate
2018	9.00%
2019	8.50%
2020	8.00%
2021	7.50%
2022	7.00%
2023	6.50%
2024	6.00%
2025	5.50%
2026	5.00%
2027	4.50%
2028	4.00%
2029 & Later	3.50%

**Coverage at Retirement** – 70% of the males and 70% of the females are assumed to elect 2-person coverage at retirement; 20% of the males and 20% of the females are assumed to elect 1-person coverage at retirement.

**Medicare coverage** was assumed to be available to all Retire Health Program members.

**Percent Continuation to Surviving Spouse** – Represents the percentage of future retirees with 2-person coverage who are assumed to continue health care coverage to an eligible surviving spouse:

- All groups                      100%

**Health Care Reform** – Health care reform was considered in the valuation to the extent that reported per capita costs reflect plan changes due to health care reform.

## SECTION I

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### CALCULATION OF THE SINGLE DISCOUNT RATE

## Calculation of the Single Discount Rate

GASB Statement No. 74 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total OPEB Liability. This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in a future year, the assumed valuation discount rate is used. In years where assets are not projected to be sufficient to meet benefit payments, the use of a municipal bond rate is required, as described in the following paragraph.

Given the low level of trust assets relative to Plan liabilities, the single discount rate used in this valuation of the Plan was 3.62%. This is the tax exempt municipal bond rate based on a 20 year index of general obligation bonds with an average AA credit rating as of the measurement date.

**SECTION J**

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**GLOSSARY OF TERMS**

# Glossary of Terms

<b>Accrued Service</b>	Service credited under the system that was rendered before the date of the actuarial valuation.
<b>Actuarial Accrued Liability (AAL)</b>	The AAL is the difference between the actuarial present value of all benefits and the actuarial value of future normal costs. The definition comes from the fundamental equation of funding which states that the present value of all benefits is the sum of the Actuarial Accrued Liability and the present value of future normal costs. The AAL may also be referred to as "accrued liability" or "actuarial liability."
<b>Actuarial Assumptions</b>	These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (compensation increases, payroll growth, inflation and investment return) consist of an underlying real rate of return plus an assumption for a long-term average rate of inflation.
<b>Actuarial Cost Method</b>	A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of the OPEB trust benefits between future normal cost and actuarial accrued liability. The actuarial cost method may also be referred to as the actuarial funding method.
<b>Actuarial Equivalent</b>	A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.
<b>Actuarial Gain (Loss)</b>	The difference in liabilities between actual experience and expected experience during the period between two actuarial valuations is the gain (loss) on the accrued liabilities.
<b>Actuarial Present Value (APV)</b>	The amount of funds currently required to provide a payment or series of payments in the future. The present value is determined by discounting future payments at predetermined rates of interest and probabilities of payment.
<b>Actuarial Valuation</b>	The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total OPEB liability, and related actuarial present value of projected benefit payments for OPEB.
<b>Actuarial Valuation Date</b>	The date as of which an actuarial valuation is performed.

# Glossary of Terms

<b>Actuarially Determined Contribution (ADC) or Annual Required Contribution (ARC)</b>	A calculated contribution into an OPEB plan for the reporting period, most often determined based on the funding policy of the plan. Typically the Actuarially Determined Contribution has a normal cost payment and an amortization payment.
<b>Amortization Method</b>	The method used to determine the periodic amortization payment may be a level dollar amount, or a level percent of pay amount. The period will typically be expressed in years, and the method will either be “open” (meaning, reset each year) or “closed” (the number of years remaining will decline each year).
<b>Amortization Payment</b>	The amortization payment is the periodic payment required to pay off an interest-discounted amount with payments of interest and principal.
<b>Cost-of-Living Adjustments</b>	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
<b>Cost-Sharing Multiple-Employer Defined Benefit OPEB Plan (cost-sharing OPEB plan)</b>	A multiple-employer defined benefit OPEB plan in which the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides benefits through the OPEB plan.
<b>Covered-Employee Payroll</b>	The payroll of employees that are provided with benefits through the OPEB plan.
<b>Deferred Inflows and Outflows</b>	The deferred inflows and outflows of OPEB resources are amounts used under GASB Statement No. 75 in developing the annual OPEB expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions. The portion of these amounts not included in the OPEB expense should be included in the deferred inflows or outflows of resources.
<b>Discount Rate</b>	For GASB purposes, the discount rate is the single rate of return that results in the present value of all projected benefit payments to be equal to the sum of the funded and unfunded projected benefit payments, specifically: <ol style="list-style-type: none"><li>1. The benefit payments to be made while the OPEB plans’ fiduciary net position is projected to be greater than the benefit payments that are projected to be made in the period; and</li><li>2. The present value of the benefit payments not in (1) above, discounted using the municipal bond rate.</li></ol>

## Glossary of Terms

### **Entry Age Actuarial Cost Method (EAN)**

The EAN is a cost method for allocating the costs of the plan between the normal cost and the accrued liability. The actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis (either level dollar or level percent of pay) over the earnings or service of the individual between entry age and assumed exit ages(s). The portion of the actuarial present value allocated to a valuation year is the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is the actuarial accrued liability. The sum of the accrued liability plus the present value of all future normal costs is the present value of all benefits.

### **Fiduciary Net Position**

The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions.

### **GASB**

The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.

### **Long-Term Expected Rate of Return**

The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.

### **Money-Weighted Rate of Return**

The money-weighted rate of return is a method of calculating the returns that adjusts for the changing amounts actually invested. For purposes of GASB Statement No. 74, the money-weighted rate of return is calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense.

### **Multiple-Employer Defined Benefit OPEB Plan**

A multiple-employer plan is a defined benefit OPEB plan that is used to provide OPEB payments to the employees of more than one employer.

### **Municipal Bond Rate**

The Municipal Bond Rate is the discount rate to be used for those benefit payments that occur after the assets of the trust have been depleted.

### **Net OPEB Liability (NOL)**

The NOL is the liability of employers and non-employer contributing entities to plan members for benefits provided through a defined benefit OPEB plan.

### **Non-Employer Contributing Entities**

Non-employer contributing entities are entities that make contributions to an OPEB plan that is used to provide OPEB payments to the employees of other entities. For purposes of the GASB accounting statements, plan members are not considered non-employer contributing entities.

## Glossary of Terms

<b>Normal Cost</b>	The portion of the actuarial present value allocated to a valuation year is called the normal cost. For purposes of application to the requirements of this Statement, the term normal cost is the equivalent of service cost.
<b>Other Postemployment Benefits (OPEB)</b>	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits regardless of the manner in which they are provided. Other post-employment benefits do not include termination benefits.
<b>Real Rate of Return</b>	The real rate of return is the rate of return on an investment after adjustment to eliminate inflation.
<b>Service Cost</b>	The service cost is the portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
<b>Total OPEB Expense</b>	The total OPEB expense is the sum of the following items that are recognized at the end of the employer's fiscal year: <ol style="list-style-type: none"><li>1. Service Cost</li><li>2. Interest on the Total OPEB Liability</li><li>3. Current-Period Benefit Changes</li><li>4. Employee Contributions (made negative for addition here)</li><li>5. Projected Earnings on Plan Investments (made negative for addition here)</li><li>6. OPEB Plan Administrative Expense</li><li>7. Other Changes in Plan Fiduciary Net Position</li><li>8. Recognition of Outflow (Inflow) of Resources due to Liabilities</li><li>9. Recognition of Outflow (Inflow) of Resources due to Assets</li></ol>
<b>Total OPEB Liability (TOL)</b>	The TOL is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service.
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	The UAAL is the difference between actuarial accrued liability and valuation assets.
<b>Valuation Assets</b>	The valuation assets are the assets used in determining the unfunded liability of the plan. For purposes of GASB Statement Nos. 74 and 75, the valuation assets are equal to the market value of assets.





October 5, 2018

Ms. Linda A. Kunath  
City Finance Director  
City of Mount Clemens Retiree Health Care Plan  
One Crocker Boulevard

Dear Linda:

Please find enclosed a copy of the GASB Statements Nos. 74 and 75 report of the City of Mount Clemens Retiree Health Program.

GASB Statement No. 74 is the accounting standard, which applies to other postemployment benefits (OPEB) plans that are administered through trusts or equivalent arrangements. GASB Statement No. 75 establishes accounting and financial reporting requirements for OPEB that are provided to employees of state and local governments.

Sincerely,

A handwritten signature in cursive script that reads "Louise Gates". The ink is dark blue or black.

Louise Gates, ASA, FCA, MAAA

LG:  
Enclosure