

April 1, 2019

PERSONAL & CONFIDENTIAL

Heather Braginton, Finance Director
Mason County Road Commission
510 E. State Street
Scottville, MI 49454

RE: Mason County Road Commission Other Post-Employment Benefit (OPEB) Plan

Dear Heather:

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.

The actuarial values shown in this report are based on December 31, 2017 results rolled forward to December 31, 2018.

Because GASB 74/75 is new, 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

Mason County Road Commission Post-Retirement Medical Plan

Accounting Report

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



Report presented by:



April 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 Nos. 74 and 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 74 and 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 and 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 Plan and additions to/deductions from the Employer's fiduciary net position have been determined on the same basis as they are reported by the Employer. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description


Mason County Road Commission Post-Retirement Medical Plan (Plan) is a single employer plan established and administered by **Mason County Road Commission** (Employer) 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, 2017, Plan membership consisted of the following:

	
Inactive plan members receiving benefits	4
Active plan members	<u>35</u>
Total participants	39

Contributions

The Plan was established and is being funded under the authority of the Employer's governing body and under agreements with the staff and unions representing various classes of employees. The Plan's funding policy is that the Employer will be contributing \$21,750 each year for the next three years while monitoring the funded status. Active participants do not make contributions to the Plan. 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, 2017 rolled forward to the measurement date. The following actuarial assumptions were used in the measurement:

Salary increases	3.5% (for purposes of allocating liability)
Investment rate of return	3.26% (including inflation)
20-year Aa Municipal bond rate	3.0%
Mortality	RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 improvement

The long-term expected rate of return on 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 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 Plan's target asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
County bonds	100%	3.26%

The long-term expected rate of return is 3.26% with inflation.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.14%. The projection of cash flows used to determine the discount rate assumed that employer contributions of \$21,750 will be made each year for the next three years. Based on this assumption, 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 a 20-year AA/Aa tax-exempt municipal bond yield. 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 for December 31, 2017 was 3.35%.

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	\$273,190	\$187,252	\$ 85,938
Changes during the Year			
Service Cost	12,765		12,765
Interest	9,446		9,446
Experience (Gains)/Losses	(44,576)		(44,576)
Change in plan terms	0		0
Change in actuarial assumptions	(4,971)		(4,971)
Contributions to OPEB trust		21,750	(21,750)
Contributions/benefit paid from general operating funds		8,000	(8,000)
Net Investment Income		2,947	(2,947)
Benefit Payments;			
Including Refunds of Employee Contributions	(8,000)	(8,000)	0
Administrative Expenses		0	0
Other Changes		<u>0</u>	<u>0</u>
Total Changes	(35,336)	24,697	(60,033)
Balance at December 31, 2018	\$237,854	\$211,949	\$ 25,905

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:

Because plan benefits are fixed at retirement, sensitivity testing was performed only on the discount rate.

	1% Decrease	Current Rate	1% Increase
Discount			
Total OPEB Liability	\$245,771	\$237,854	\$230,431
Plan Fiduciary Net Position	<u>211,949</u>	<u>211,949</u>	<u>211,949</u>
Net OPEB Liability	\$ 33,822	\$25,905	\$ 18,482

NET OPEB LIABILITY

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	\$ 12,765
Interest on Total OPEB Liability	9,446
Experience (Gains)/Losses	(9,568)
Changes of Assumptions	(1,067)
Changes in plan terms	0
Employee Contributions	0
Projected Earnings on OPEB Plan Investments	(7,430)
Investment Earnings (Gains)/Losses	897
Administrative Expenses	0
Other Changes in Fiduciary Net Position	<u>0</u>
Total OPEB Expense	\$ 5,043

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2018 is \$211,949.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	\$ 0	\$35,008
Changes of Assumptions	0	3,904
Investment Earnings (Gains)/Losses	<u>3,586</u>	<u>0</u>
Total	\$ 3,586	\$38,912

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 December 31,	Amount Recognized
2019	(9,738)
2020	(9,738)
2021	(9,738)
2022	(6,114)
2023	0
Thereafter	0

NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability December 31, 2017	\$ 85,938
Total OPEB expense	5,043
Contributions	(29,750)
Change in deferred outflows of resources	3,586
Change in deferred inflows of resources	<u>(38,912)</u>
Net OPEB Liability December 31, 2018	\$ 25,905

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	\$226,350
Inactive participants receiving benefits	<u>11,504</u>
Total	\$237,854

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending	12/31/2018	12/31/2017
Total OPEB Liability		
Service Cost	12,765	11,298
Interest	9,446	11,905
Changes of Benefit Terms	0	0
Difference between Expected and Actual Experience	(44,576)	(42,350)
Change of Assumptions	(4,971)	11,627
Benefit Payments (Including Refunds of Employee Contributions)	(8,000)	(11,252)
Net Change in Total OPEB Liability	(35,336)	(18,772)
Total OPEB Liability – Beginning	273,190	291,962
Total OPEB Liability – Ending (a)	237,854	273,190
Plan Fiduciary Net Position		
Contributions to OPEB trust	21,750	187,252
Contributions/benefit payments made from general operating funds	8,000	11,252
Net Investment Income	2,947	0
Benefit Payments (Including Refunds of Employee Contributions)	(8,000)	(11,252)
Administrative Expenses	0	0
Other	0	0
Net Change in Fiduciary Net Position	24,697	187,252
Plan Fiduciary Net Position – Beginning	187,252	0
Plan Fiduciary Net Position – Ending (b)	211,949	187,252
Net OPEB Liability – Ending (a)-(b)	25,905	85,938
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	89.1%	68.5%
Covered Employee Payroll	Not available	Not available
Net OPEB Liability as Percentage of Payroll	Not available	Not available

Schedule of Employer Contributions

Actuarially Recommended Contribution (ARC)	Fiscal Year Ending December 31,	
	2019	2018 ¹
Normal cost	\$12,199	\$12,765
Amortization of unfunded liability	5,145 ²	5,745
Interest cost	545	620
Actuarially Determined Employer Contribution	\$17,889	\$19,130
Employer Contribution (benefit payments)	TBD	29,750
Contribution Deficiency/(Excess)	TBD	\$(10,620)
Covered Employee Payroll	Not available	Not available
Contribution as a Percentage of Covered Payroll	Not available	Not available

¹ From the 12/31/2017 report

² Based on 5-year, level percent of pay, 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)		211,949
Liabilities (Total OPEB Liability)		237,854
Funded ratio for the Plan Year		89.1%
Actuarially Determined Contribution using a 30 year amortization		16,752
Is ARC calculated in compliance with No. Letter 2018-3?		Yes
Membership		2018
Active members		35
Retirees and Beneficiaries		4
Premiums paid on behalf of the retirants		8,000
Actuarial Assumptions		2018
Actuarially assumed rate of investment return		3.26%
Discount rate		3.14%
Amortization method used for funding unfunded liability	Level percent of pay	
Amortization period used for funding unfunded liability		6 years
Is each division closed to new employees		No
Healthcare trend assumption		Not applicable
Uniform Assumptions		2018
Actuarial value of assets using uniform assumptions		211,949
Actuarial accrued liability using uniform assumptions		237,854
Funded ratio using uniform assumptions		89.1%
Actuarially determined contribution (ADC) using uniform assumptions		27,133
Information for Summary Report (minimum required contribution) ¹		2018
Retiree insurance premiums for the year (1)		8,000
Normal cost as a percent of covered payroll (2)		Not available
Covered payroll for employees hired after June 30, 2018 (3)		Not available
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)		Not available
Minimum required contribution under PA 202 (1) + (4)		Not available

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 may be needed

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods for Calculation of Actuarially Determined Contribution

Valuation date December 31, 2017

Measurement Date December 31, 2018

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)

Amortization method Level percent of pay

Asset valuation method Market value of assets

Actuarial Assumptions

Discount rate –3.14% for December 31, 2018 liability and 2019 contribution

Rationale – Average effective rate consisting of long-term return on assets and 20-year Aa Municipal Bond rate

20-year Aa Municipal Bond Rate – 3.00%

Rationale – Current bond rate

Salary scale – 3.5%

Rationale – Consistent with Uniform Assumptions under Public Act 202

Return on plan assets – 3.26%

Rationale – consistent with long term investment strategy

Mortality rates – RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 improvement

Rationale – Contemporary table consistent with Uniform Assumptions under Public Act 202

Utilization – 100% of eligible employees will elect coverage at retirement; actual coverage used for non-active

Rationale – Consistent with experience

Turnover rates – Sample rates below

Age	Rate
20	7.79%
25	6.78
30	4.66
35	3.19
40	2.21
45	1.59
50	0.00

Marital assumption – N/A; no spousal benefit

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Retirement rates – Earliest eligibility age

Rationale – consistent with experience and maximizes available benefit

Inflation rates – N/A

Rationale – Benefits are a fixed dollar amount

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

Changes since prior valuation

- Mortality tables updated
- Discount rate changed from 3.35%
- Salary scale updated

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	2023+		
2018	(44,576)	4.66	(9,568)	(9,568)	(9,568)	(9,568)	(6,305)	-	-	(35,008)
Net recognized in OPEB expense			\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (6,305)	\$ -	\$ -	\$ (35,008)

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	2023+		
2018	(4,971)	4.66	(1,067)	(1,067)	(1,067)	(1,067)	(703)	-	-	(3,904)
Net recognized in OPEB expense			\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (703)	\$ -	\$ -	\$ (3,904)

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	4,483	5	897	897	897	897	895	-	3,586	-
Net recognized in OPEB expense			\$ 897	\$ 897	\$ 897	\$ 897	\$ 895	\$ -	\$ 3,586	\$ -

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023
Total Deferred Outflow/(Inflow) of Resources	\$ (9,738)	\$ (9,738)	\$ (9,738)	\$ (6,114)	\$ -

SUMMARY OF PLAN PROVISIONS

Plan name – Mason County Road Commission Post-Retirement Medical Plan

Eligibility and plan provisions:

\$250 per month from age 58 to age 65

Changes since prior valuation

None

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.