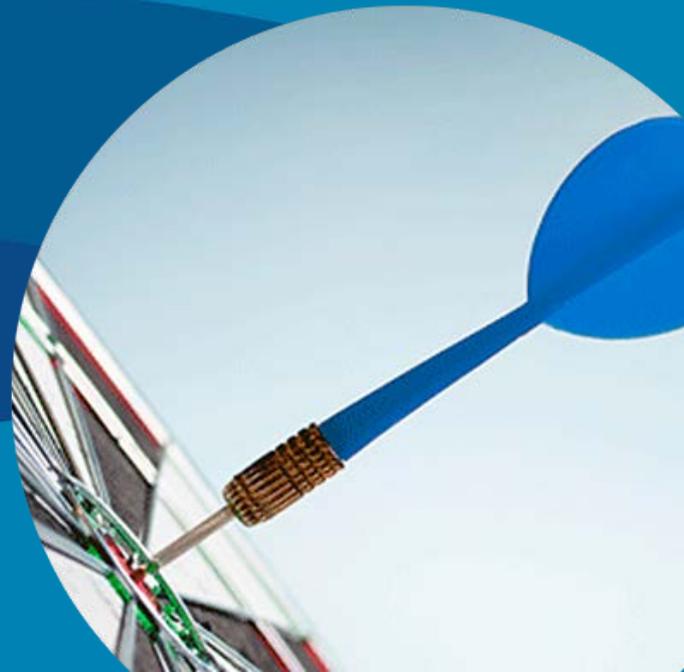


Bay County Retiree Health Care Plan

December 31, 2017 Actuarial Valuation
VEBA Board Meeting
March 12, 2019



Agenda

- Retiree Medical in the News – PA 202
- Components of the Actuarial Valuation
- Results of the 2017 Valuation
- Looking Ahead
- Questions

Retiree Medical in the News

- Michigan Legislative Actions
 - Public Act 202 of 2017
 - “Protecting Local Government Retirement and Benefits Act”
 - Intended to reflect recommendations from the Governor’s Responsible Retirement Reform Local Government Task Force Report
 - Includes:
 - New Mandates
 - New Reporting/Transparency Requirements
 - Underfunded Local Units Requirements

PA 202 - New Mandates

- Beginning July 1, 2018, the following apply to a Local Unit of Gov't (LUG) that offers OPEB:
 - The LUG pays at least both of the following:
 - Normal Cost for post-June 30, 2018 hires
 - Any retiree premiums that are due to retirants in the retirement system (pay-go-cost)
 - Submission of Form 5572
 - Form 5572 varies for fiscal years 2017, 2018, and 2019

PA 202 - New Mandates (Concluded)

- Conduct an experience study at least once every five years
- Have an actuarial audit or replace the retained actuary once every eight years
- LUGs eligible for the specified alternative measurement method are exempt from the experience study and audit requirements above

PA 202 - New Reporting Requirements

- Figures determined using uniform assumptions reported on Form 5572
 - NOT used to determine underfunded status
 - Only for comparison purposes, separate from...
- Assets, liabilities, funded ratio and ADC (Actuarially Determined Contribution) from financial statements
 - Used to determine underfunded status

PA 202 - New Reporting Requirements (Continued)

- State treasurer established uniform actuarial assumptions for 2019 **OPEB reporting**

Assumption	PA 202	Current Bay Co OPEB Assumptions
Investment Return	Maximum of 7%	7.00%
Discount Rate	Possible blend based on GASB approach. Max 7%, Min 3%	7.00%
Salary Increase	Minimum of 3.5% ¹	3.25%
Mortality	RP-2014 Table ¹	Version of RP-2014 Table
Amortization Period	Maximum of 30 years	All groups < 30 years
Trend	17 year schedule grading from 8.5% initial to 4.5% Ultimate	10 year schedule grading from 9.0% initial to 3.5% Ultimate

¹ Or based on actuarial experience study performed in last 5 years.

PA 202 - New Reporting Requirements (Continued)

- Each year beginning after December 31, 2017 underfunded status of a LUG will be determined
- LUG is underfunded if any of the following apply:
 - AAL of retirement health system is < 40% funded and ADC is > 12% of LUG's annual general fund operating revenues for the most recent year
 - LUG has not submitted reports required under Section 5 of PA 202

PA 202 - New Reporting Requirements (Concluded)

- LUG fails to make payments described in Section 4(1) of PA 202
 - Normal Cost for employees first hired after June 30, 2018
 - Any retiree premiums that are due to retirants in the retirement system (pay-go-cost)
- Annual calculation of funded status based on LUG financial statements
- Electronic submission of necessary information no later than six months after LUG's FYE

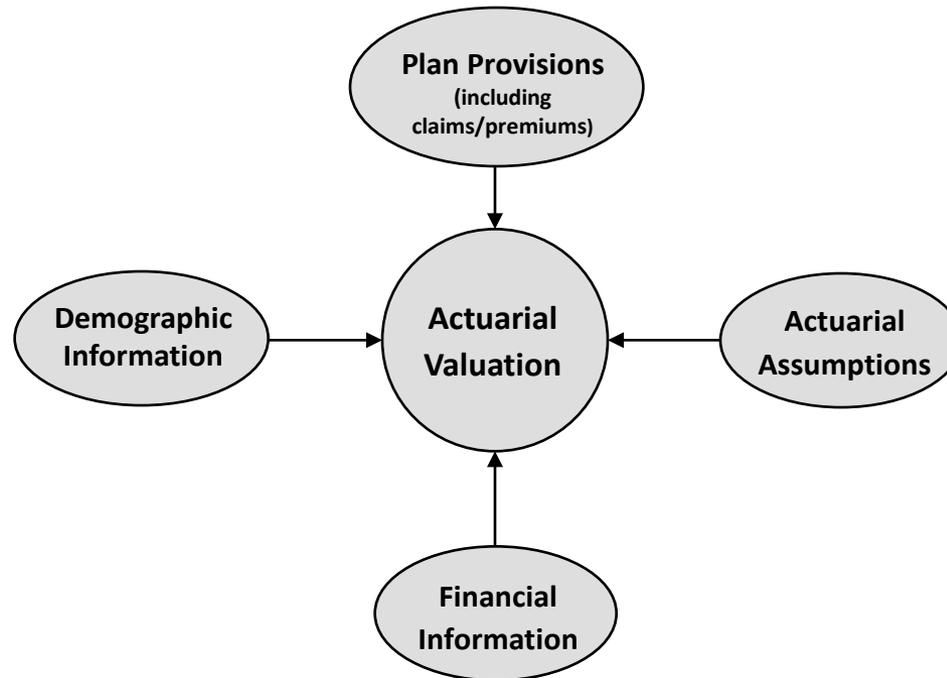
PA 202 - Underfunded Local Unit Requirements

- Can apply for waiver of underfunded status
 - LUG must demonstrate underfunded status is being addressed
 - State treasurer must approve
- If waiver not approved, Department of Treasury will:
 - Undertake internal review of LUG retirement systems
 - Discuss changes or reforms with LUG designated officials
 - Review actuarial projections

PA 202 - Underfunded Local Unit Requirements (Concluded)

- Underfunded LUGs shall develop and submit for approval a corrective action plan
- PA 202 Creates the Municipal Stability Board
 - Annually update list of best practices for LUGs developing a corrective action plan
 - Review and approve corrective action plans submitted by underfunded LUGs
 - Monitor each underfunded LUG's compliance with PA 202 and any corrective action plan

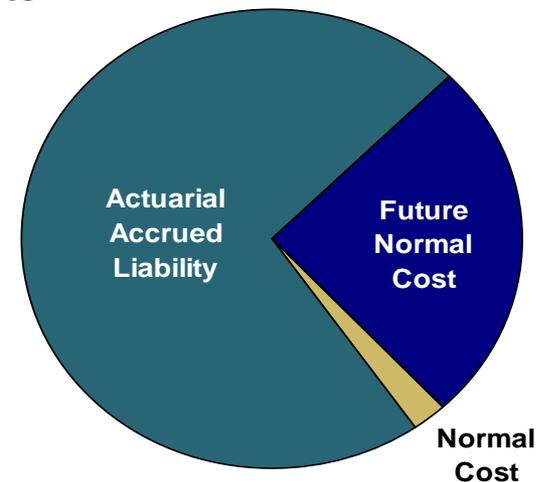
Components of the Actuarial Valuation



- Demographic Information, Financial Information and Plan Provisions (including claims/premium information) are provided by the plan sponsor.
- Actuarial Assumptions are recommended by the actuary and approved by the Board (typically the demographic assumptions are the same as those used in the pension valuation).
- The actuarial valuation is a mathematical process used to project future payments on account of specified benefit provisions. These projected payouts are converted to equivalent present value amounts and a corresponding dollar contribution is determined.

Components of the Actuarial Valuation (Continued)

- **Present Value of Future Benefits** - Present Value (PV) of all future benefits payable to current participants (active, retired, terminated vested)
- **Actuarial Liability** - Portion of PV of Future Benefits allocated to prior years
- **Normal Cost** - Portion of PV of Future Benefits allocated to current year
- **Future Normal Costs** - Portion of PV of Future Benefits allocated to future years



Present Value of Future Benefits

Components of the Actuarial Valuation (Concluded)

$$\begin{aligned} & \text{Actuarial Accrued Liability} \\ & - \text{Actuarial Value of Assets} \\ \hline & \text{Unfunded Actuarial Liability} \end{aligned}$$

$$\text{Actuarial Computed Employer Contribution} = \text{Normal Cost} + \text{Amortization of the Unfunded Liability}$$

Valuation Comments

- Amortization Periods/Methods

Group	Period (Years)	Method
General/Sheriff	24	Level Dollar
DWS	24	Level % of Payroll
Library	24	Level Dollar
Medical Care Facility	22	Level Dollar
Road Commission	14	Level Dollar
BABH	20	Level % of Payroll

Valuation Comments

(Concluded)

- Changes to the Actuarial Contribution varied by group due to:
 - Updated assumptions
 - Discount rate updated to 7% for all groups (decrease for BABH and increase for all others)
 - Trend rate updated
 - Experience study changes implemented (mortality, etc.)
 - Adjustment to retiree benefit election assumption for General County, Sheriffs Department, and BABH
 - Patient Protection and Affordable Care Act - adjustment for “Cadillac Plans” removed for Library
 - Premium/Claims experience
 - Updated benefit provisions/understanding for General County, Medical Care Facility and Road Commission

Valuation Results – Retiree Health Actuarially Computed Employer Contributions

Fiscal Year	2017	2018	2019
Valuation Date	12/31/2015	12/31/2017	12/31/2017
General County	\$4,164,943	\$2,779,319	\$2,738,647
DWS	672,541	583,242	602,198
Library	306,893	41,351	38,737
Medical Care Facility	3,425,283	2,620,460	2,594,802
Sheriff's Department	1,191,107	722,085	715,615
Road Commission	2,821,742	3,219,583	3,223,518
Total	\$12,582,509	\$9,966,040	\$9,913,517
BABH	\$ 0	\$ 0	\$ 0

Actuarially Computed Employer Contributions have decreased for all groups except Road Commission.

Results of the 2017 Valuation – Retiree Health Benefits

	<u>General County</u>	<u>DWS</u>	<u>Library</u>	<u>Medical Care Facility</u>	<u>Sheriff's Department</u>	<u>Road Commission</u>	<u>Total</u>	<u>BABH</u>
Actuarial Accrued Liability	\$ 37,551,232	\$ 11,443,776	\$ 2,033,780	\$ 37,478,138	\$ 10,330,598	\$ 26,572,901	\$ 125,410,425	\$ 9,145,032
Actuarial Value of Assets	11,432,434	5,760,410	2,076,533	10,943,671	3,625,221	1,101,505	34,939,774	17,542,745
Unfunded Actuarial Accrued Liability	26,118,798	5,683,366	(42,753)	26,534,467	6,705,377	25,471,396	90,470,651	(8,397,713)
Funded Ratio	30.4%	50.3%	102.1%	29.2%	35.1%	4.1%	27.9%	191.8%
Fiscal Year 1/1/2018 - 12/31/2018								
Normal Cost	\$ 578,217	\$ 225,130	\$ 44,954	\$ 301,828	\$ 157,005	\$ 404,476	\$ 1,711,610	\$ 207,144
Amortization Payment	<u>2,201,102</u>	<u>358,112</u>	<u>(3,603)</u>	<u>2,318,632</u>	<u>565,080</u>	<u>2,815,107</u>	<u>8,254,430</u>	<u>(596,733)</u>
Total	2,779,319	583,242	41,351	2,620,460	722,085	3,219,583	9,966,040	-
Data								
Actives*	326	53	27	256	77	49	788	202
Covered Retirees^	195	32	14	161	54	88	544	69
Inactive, Nonretired Individuals	0	0	0	0	0	0	0	0

* Excludes part-time employees, includes employees hired after closure dates (varied by group).

^ Coverage based on medical/prescription drug coverage.

Looking Ahead

- VEBA valuations required once every 2 years
 - Essentially 7 separate valuations due to distinct benefit provisions requiring distinct premiums
- Received final data for 2017 VEBA valuations in December 2018
- GASB valuations are produced each year
 - Use asset figures updated annually
 - Roll liabilities forward with standard techniques
 - Provide information needed for Public Act 202

Looking Ahead (Concluded)

- Annual valuation considerations
 - Provide update results based on most recent benefit/people data
 - All data must be received within 6 months of valuation date – achievable?
 - Increase Bay County Staff workload and GRS fees

QUESTIONS?

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
 - This presentation is intended to be used in conjunction with the actuarial valuation reports issued on January 24, 2019 and February 28, 2019. This presentation should not be relied on for any purpose other than the purpose described in the valuation reports.