

January 23, 2019

PERSONAL & CONFIDENTIAL

Andrea Herman
Finance & Business Manager
Wexford County Road Commission
85 West Highway M-115
Boon, Michigan 49618

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

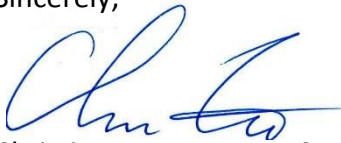
Dear Andrea:

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,



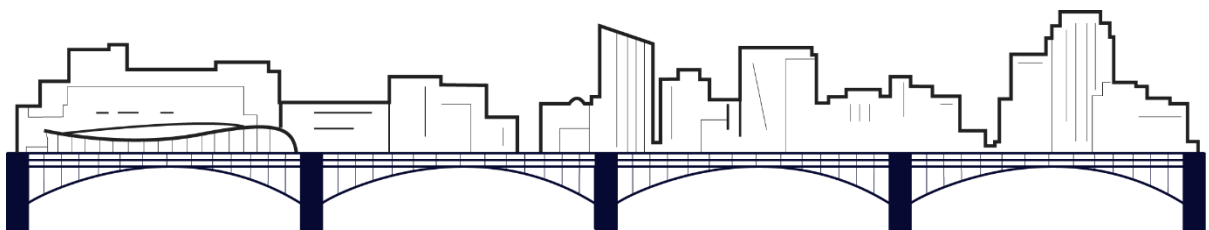
Christian R. Veenstra, FCA, ASA, MAAA
President / Enrolled Actuary

Enclosure

Wexford County Road Commission Post-Retirement Medical Plan

Accounting Report

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



Report presented by:



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

Prepared and Certified by:



Christian R. Veenstra, FCA, ASA, MAAA
Enrolled Actuary #17-05668

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 Wexford County Road Commission Employee OPEB Plan and additions to/deductions from the County Road Commission's fiduciary net position have been determined on the same basis as they are reported by the Wexford 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

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

Benefits Provided

A summary of plan provisions is available on page 11.

Summary of Plan Participants

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

Inactive plan members receiving benefits	18
Active plan members	<u>0</u>
Total participants	18

Contributions

The Wexford County Road Commission Employee OPEB Plan was established and is being funded under the authority of the County Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is to contribute the Actuarially Recommended Contribution (ARC) as presented in this report. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The Employer's OPEB liability was measured as of 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	2.5%
Salary increases	N/A; no current employees are covered by this plan
Investment rate of return	7.75% (net of investment expense, including inflation)
Mortality	RP-2014 Headcount weighted, annuitant and non-annuitant, sex-distinct mortality with MP-2018 improvement scale

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
Global equity	55.5%	6.15%
Global fixed income	18.5	1.26
Real assets	13.5	7.22
Diversifying strategies	12.5	5.00

The weighted average of the above allocation and long term expected real rate of return is **5.25%**

Discount Rate

The discount rate used to measure the total OPEB liability was **7.75%**. The projection of cash flows used to determine the discount rate assumed that Employer contributions will be made at rates equal to the most recent recommended contribution. Based on those assumptions, the Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan participants. 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. December 31, 2018 is the first year of potential compliance with GASB 75, so there is no required discount rate change to disclose.

NET OPEB LIABILITY

Net OPEB Liability at December 31, 2018

	Total
Active participants	-
Inactive participants receiving benefits	<u>774,935</u>
Total	\$774,935

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2018 is \$25,037.

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balance at December 31, 2017	777,004	-	777,004
Changes during the Year			
Service Cost	-	-	-
Interest	57,765	-	57,765
Experience (Gains)/Losses	3,479	-	3,479
Change in actuarial assumptions	-	-	-
Contributions to OPEB trust	-	26,380	(26,380)
Contributions/benefit paid from general operating funds	-	63,313	(63,313)
Net Investment Income	-	(1,324)	1,324
Benefit Payments	(63,313)	(63,313)	-
Administrative Expenses	-	(19)	19
Other Changes	=	=	=
Total Changes	(2,069)	25,037	(27,106)
Balance at December 31, 2018	774,935	25,037	749,898
Net OPEB Liability as Percentage of Payroll			3.23%

Reconciliation of Net OPEB Liability

Net OPEB Liability (Asset) December 31, 2017	777,004
Total OPEB expense	60,737
Contributions	(89,693)
Deferred outflows of resources	1,850
Deferred inflows of resources	-
Net OPEB Liability (Asset) December 31, 2018	\$749,898

NET OPEB LIABILITY

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the Net OPEB Liability (NOL) of the Employer, calculated using trend and discount rates 1% higher and lower than base assumptions:

	1% Decrease	Current rate	1% Increase
Discount			
Total OPEB Liability	\$834,457	\$774,935	\$722,781
Plan Fiduciary Net Position	<u>25,037</u>	<u>25,037</u>	<u>25,037</u>
Net OPEB Liability	809,420	749,898	697,744

	1% Decrease	Current trend	1% Increase
Trend			
Total OPEB Liability	\$717,270	\$774,935	\$839,617
Plan Fiduciary Net Position	<u>25,037</u>	<u>25,037</u>	<u>25,037</u>
Net OPEB Liability	692,233	749,898	814,580

Subsequent events

Current active employees will not be covered by this plan but will be moved into a Health Plan Savings Account effective May or June of 2019. The elimination of new future retirees was reflected in these calculations.

OPEB EXPENSE

Components of OPEB Expense for the Fiscal Year Ending December 31, 2018

Below are the components of the OPEB Expense:

	Fiscal Year Ending December 31, 2018
Service Cost	\$-
Interest on Total OPEB Liability	57,765
Experience (Gains)/Losses	3,479
Changes of Assumptions	-
Employee Contributions	-
Projected Earnings on OPEB Plan Investments	(988)
Investment Earnings (Gains)/Losses	462
Administrative Expenses	19
Other Changes in Fiduciary Net Position	-
OPEB Expense	\$60,737

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	-	-
Changes of Assumptions	-	-
Investment Earnings (Gains)/Losses	<u>1,850</u>	-
Total	\$1,850	\$-

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

Year Ended December 31,	Amount Recognized
2019	\$462
2020	462
2021	462
2022	464
2023	-
Thereafter	\$-

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal year ending December 31,		<u>2018</u>
Total OPEB Liability		
Service Cost		-
Interest		57,765
Changes of Benefit Terms		-
Difference between Expected and Actual Experience		3,479
Change of Assumptions		-
Benefit Payments		(63,313)
Net Change in Total OPEB Liability		(2,069)
Total OPEB Liability – Beginning		777,004
Total OPEB Liability – Ending (a)		774,935
Plan Fiduciary Net Position		
Contributions to OPEB trust		26,380
Contributions/benefit payments made from general operating funds		63,313
Net Investment Income		(1,324)
Benefit Payments (Including Refunds of Employee Contributions)		(63,313)
Administrative Expenses		(19)
Other		-
Net Change in Fiduciary Net Position		25,037
Plan Fiduciary Net Position – Beginning		-
Plan Fiduciary Net Position – Ending (b)		25,037
Net OPEB Liability – Ending (a)-(b)		749,898
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		3.23%
Covered Employee Payroll		N/A
Net OPEB Liability as Percentage of Payroll		NA/

Schedule of Employer Contributions

Actuarially Determined Employer Contribution (ADC)	Fiscal Year Ending December 31,	
	<u>2019</u>	<u>2018</u>
Normal cost	-	-
Amortization of Net OPEB Liability ¹	96,309	94,453
Interest to end of year	<u>7,464</u>	<u>7,320</u>
Total ADC	103,773	101,773
Contribution/benefit payment	TBD	(89,693)
Contribution Deficiency/(Excess)	TBD	12,080

¹ Level dollar, average future lifetime (11 and 12 years for 2019 and 2018 respectively)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Net OPEB Liability and Actuarially Determined Contribution

Financial information	2018	2017
Assets (Fiduciary net position)	25,037	-
Liabilities (Total OPEB Liability)	774,935	777,004
Funded ratio for the Plan Year	3.23%	0.00%
Actuarially Recommended contribution (ARC)	101,773	
Is ARC calculated in compliance with No. Letter 2018-3?	Yes	
Membership	2018	2017
Active members	-	
Retirees and Beneficiaries	18	
Premiums paid on behalf of the retirants	63,313	
Actuarial Assumptions	2018	2017
Actuarially assumed rate of investment return	7.75%	7.75%
Discount rate	7.75%	7.75%
Amortization method used for funding unfunded liability	Level \$	Level \$
Amortization period used for funding unfunded liability	12	
Is each division closed to new employees	Yes	
Healthcare inflation assumption (see page 9 of this report)		
Uniform Assumptions	2018	
Actuarial value of assets using uniform assumptions	25,037	-
Actuarial accrued liability using uniform assumptions	818,818	N/A
Funded ratio using uniform assumptions	3.06%	N/A
Actuarially determined contribution (ADC) using uniform assumptions	63,968	N/A
Information for Summary Report (minimum required contribution) ¹	2018	
Retiree insurance premiums for the year (1)	63,313	
Normal cost as a percent of covered payroll (2)	-	N/A
Covered payroll for employees hired after June 30, 2018 (3)	-	N/A
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)	-	
Minimum required contribution under PA 202 (1) + (4)	63,313	

¹ Senate Bill 686 requires that a local unit is must contribute at least both of the following – Normal cost for employees first hired after June 30, 2018 and retiree premiums are due to retirants in the retirement system; In order to obtain 40% funding, higher contribution as recommended as shown in the “Financial Information” table above

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods used in Calculation of Actuarially Determined Contribution

Valuation date December 31, 2018

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)

Asset valuation method Not applicable; plan is not pre-funded

Actuarial Assumptions

Discount rate – 7.75% for 2018 contribution, December 31, 2018 disclosure and 2019 contribution

Rationale – Per building block method and projected funding as prescribed under GASB No. 75

Salary scale – N/A

Rationale – The plan is closed to future retirees

Return on plan assets – 7.75%

Rationale – Weighted average of MERS published expected real rate of return and target allocation taking into account inflation

Mortality rates – RP-2014, Headcount weighted, annuitant and non-annuitant, sex-distinct mortality table with MP 2018 improvement table

Rationale – Contemporary tables as required under State of Michigan Public Act 202

Utilization – Actual election used for non-active

Rationale – All plan participants are retired

Turnover rates – N/A; all participants are retired

Retirement rates – N/A; all participants are retired

Dependent assumption – Actual marital status; only retirees are covered

Claims costs

Pre-65:

Medical: \$403.91 per month

Medicare eligible:

Medical: \$389.00 per month

Rationale – actual monthly premiums in effect for 2018; as of the valuation date all but one retiree is Medicare eligible so **implicit costs**, if any, are minimal

Inflation rates

Medical:

Pre-65 – 8.5% in 2019 graded 0.25% per year to 4.5%

Post-65 – 7.0% in 2019 graded 0.25% per year to 4.5%

Rationale - State of Michigan Public Act 202 Uniform Assumptions

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 performed for purposes of compliance with GASB No. 75

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year Ended December 31,	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	3,479	1.0	<u>3,479</u>	-	-	-	-	-	-	-
Net Recognized in OPEB Expense			-	-	-	-	-	-	-	-

Schedule of Changes in Assumptions

Year Ended December 31,	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	-	1.0	-	-	-	-	-	-	-	-
Net Recognized in OPEB Expense			-	-	-	-	-	-	-	-

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

Year Ended December 31	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	2,312	5.00	<u>462</u>	<u>462</u>	<u>462</u>	<u>462</u>	<u>464</u>	<u>1,850</u>	-	
Net Recognized in OPEB Expense			462	462	462	462	464	1,850	-	

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023+
Total Deferred Outflow/(Inflow) of Resources	462	462	462	464	-

SUMMARY OF PLAN PROVISIONS

Plan name – Wexford County Road Commission Retiree Health Care Plan

Benefit eligibility

Admin

Retired prior to January 1, 2011 – Employer pays health premiums after age 62

Retired on or after January 1, 2011 and prior to March 1, 2016 – Employer pays a percentage of premium based on years of service at retirement (4% times years of service to 25 years plus \$50 per month)

Retired on or after March 1, 2016 – Per OPEB buyout agreement, employer no longer provides retiree health coverage

Union

Retired prior to January 1, 2011 – Employer pays health insurance premiums at age 60 if retired after age 55

Retired on or after January 1, 2011 and prior to March 1, 2016 – Employer pays a percentage of the premium based on years of service at retirement (4% times years of service up to 25 years plus \$50 per month)

Retired on or after March 1, 2016 – Per OPEB buyout agreement, employer no longer provides retiree health coverage

Retiree contribution

Admin

Retired prior to January 1, 2011 – \$50 per month

Retired on or after January 1, 2011 and prior to March 1, 2016 – Balance of premium not paid by employer

Retired on or after March 1, 2016 –No retiree health coverage provided

Union

Retired prior to January 1, 2011 – \$50 per month

Retired on or after January 1, 2011 and prior to March 1, 2016 – Balance of premium not paid by employer

Retired on or after March 1, 2016 –No retiree health coverage provided

Spouse and surviving spouse – 100% of premium

Changes since prior valuation

Per OPEB employer buyout agreement, no retiree health coverage provided to employees who retire on or after March 1, 2016

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. For GASB 67, the measurement date is the plan's current fiscal year end.

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.