WATKINS ROSS

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February 14, 2020

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, 2019. 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, 2018 results rolled forward to December 31, 2019.

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, 2019
under GASB Statement 74/75

WATKINS ROSS | 200 OTTAWA AVE N.W. | SUITE 600 | GRAND RAPIDS, MI 49503 | 616.456.9696

Report presented by:

WATKINS ROSS

February 2020

CONTENTS

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

Leah A. Dudley, ASA, MAAA
Health Actuary

COMMENTS

Purpose of Governmental Accounting Standards Board (GASB) Reporting

The objective of GASB is to provide guidelines and requirements for accounting and financial reporting by State and local governments for postemployment benefits other than pensions (OPEB). This statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources and methods and assumptions that are required to be used to project benefits payments and discount those payments to their actuarial present value.

The methods and assumptions may or may not be an appropriate measure of the plan's liability for funding purposes or for reporting liabilities under Public Act 202 of the State of Michigan. Thus, liabilities and other values calculated for those purposes may differ from the ones used for GASB reporting.

State of Michigan Public Act 202

Public Act 202 (PA 202) was drafted to address the underfunded status of pension and retiree healthcare plans of local governments in Michigan. Accordingly, PA 202 included transparency and funding requirements. In addition, in order that the plans' funded status of plan sponsors be reported on a consistent basis, Uniform Assumptions were published. While all of the Uniform Assumptions have a sound and reasonable basis, some might not be appropriate for each plan so may be different than what is used for funding. Additionally, some of the assumptions may differ from what is required for reporting under GASB.

Actuarially Determined Contribution for GASB reporting

GASB reporting includes a 10-year history of a comparison of actual annual amounts contributed by an employer on behalf of the OPEB plan and an Actuarially Determined Contribution (ADC). In addition, the report includes a summary of assumptions used to determine the ADC. This reporting requirement presumes a separate funding report is completed. However, for many employers, separate funding studies have not been solicited. So, in order to provide this information, we have included a contribution section in this report (Schedules of Required Supplementary Information: Description of Actuarially Determined Contribution) that provides this information. The assumptions and methods used for these calculations are derived from those used for GASB reporting and not necessarily consistent with PA 202 unless otherwise indicated. This report includes an ADC determined using an amortization of the unfunded liability over eleven years for GASB reporting purposes.

Actuarially Determined Contribution under Public Act 202

Public Act 202 also requires a calculation of an ADC using the prescribed Uniform Assumptions. This ADC differs from the one used for the 10-year reporting history noted in the paragraph above. (Schedules of Required Supplementary Information: State of Michigan Public Acts 530 and 202 Information)

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, benefit payments 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 13.

Summary of Plan Participants

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

Active plan members	0
Retirees and beneficiaries	18
Total participants	18

Contributions

The Wexford County Road Commission Retiree Health Care 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 that the employer will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. Currently, benefit payments are made from general operating funds. 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 December 31, 2019.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 rolled forward to the measurement date. The following actuarial assumptions were used in the measurement:

Inflation	2.1%
Salary increases	N/A; no current employees are covered by this plan
Investment rate of return	7.35% (including inflation)
20 year Aa municipal bond rate	3.26% (S&P Municipal Bond 20-year High Grade Rate Index)
Mortality	2010 Public General Healthy Retirees; headcount-weighted
Improvement Scale	MP-2019

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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	55.5%	6.15%
Global fixed income	18.5	1.26
Private Assets	26.0	6.15

The sum of each target allocation times its long-term expected real rate is 5.25%. Together with 2.1% inflation, the long-term expected rate of return is 7.35%.

Discount Rate

The discount rate used to measure the total OPEB liability was **7.35%.** 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 this assumption, the retirement plan's fiduciary net position was 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 crossover or "depletion date", not applicable for this plan), 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. This discount rate is used to determine the Total OPEB Liability. The discount rate used for December 31, 2018 was 7.75%.

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, 2018	$774,935	$25,037	$749,898
Changes during the Year			
Service Cost	-		-
Interest	57,770		57,770
Experience (Gains)/Losses	(5,817)		(5,817)
Change in plan terms	(322,174)		(322,174)
Change in actuarial assumptions	13,115		13,115
Contributions to OPEB trust		103,773	(103,773)
Contributions/benefit paid from general operating funds		59,010	(59,010)
Net Investment Income		10,611	(10,611)
Benefit Payments; Including Refunds of Employee Contributions	(59,010)	(59,010)	
Administrative Expenses		(127)	127
Other Changes		-	-
Total Changes	(316,116)	114,257	(430,373)
Balance at December 31, 2019	$458,819	$139,294	$319,525

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB liability (NOL) of the Employer, calculated using discount rates 1% higher and lower than base assumptions. The benefit is a fixed monthly payment, so the liability is unaffected by trend.

	1% Decrease	Current Rate	1% Increase
Discount			
Total OPEB Liability	$484,861	$458,819	$435,503
Plan Fiduciary Net Position	139,294	139,294	139,294
Net OPEB Liability	$345,567	$319,525	$296,209

NET OPEB LIABILITY

OPEB Expense

Components of Employer's OPEB Expense for the Fiscal Year Ending December 31, 2019

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending 12/31/2019
Service Cost	$ -
Interest on Total OPEB Liability	57,770
Experience (Gains)/Losses	(5,817)
Changes of Assumptions	13,115
Changes in plan terms	(322,174)
Employee Contributions	-
Projected Earnings on OPEB Plan Investments	(5,956)
Investment Earnings (Gains)/Losses	(469)
Administrative Expenses	127
Other Changes in Fiduciary Net Position	-
Total OPEB Expense	$(263,404)

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2019 is $139,294.

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	-	2,336
Total	**$ -**	**$2,336**

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
2020	(469)
2021	(469)
2022	(467)
2023	(931)
2024	-
Thereafter	-

NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability December 31, 2018	$749,898
Total OPEB expense	(263,404)
Contributions	(162,783)
Change in deferred outflows of resources	(1,850)
Change in deferred inflows of resources	(2,336)
Net OPEB Liability December 31, 2019	**$319,525**

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	$ -
Inactive participants receiving benefits	458,819
Total	$458,819

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending December 31,	2019	2018
Total OPEB Liability		
Service Cost	$ -	$ -
Interest	57,770	57,765
Changes of Benefit Terms	(322,174)	-
Difference between Expected and Actual Experience	(5,817)	3,479
Change of Assumptions	13,115	-
Benefit Payments (Including Refunds of Employee Contributions)	(59,010)	(63,313)
Net Change in Total OPEB Liability	(316,116)	(2,069)
Total OPEB Liability – Beginning	774,935	777,004
Total OPEB Liability – Ending (a)	458,819	774,935
Plan Fiduciary Net Position		
Contributions to OPEB trust	103,773	26,380
Contributions/benefit payments made from general operating funds	59,010	63,313
Net Investment Income	10,611	(1,324)
Benefit Payments (Including Refunds of Employee Contributions)	(59,010)	(63,313)
Administrative Expenses	(127)	(19)
Other	-	-
Net Change in Fiduciary Net Position	114,257	25,037
Plan Fiduciary Net Position – Beginning	25,037	-
Plan Fiduciary Net Position – Ending (b)	139,294	25,037
Net OPEB Liability – Ending (a)-(b)	319,525	749,898
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	30.4%	3.2%
Covered Employee Payroll	N/A	N/A
Net OPEB Liability as Percentage of Payroll	N/A	N/A
Actuarially Determined Contribution (ADC)	103,773	101,773
Employer contribution	(162,783)	(89,693)
Contribution deficiency (excess)	(59,010)	12,080
Covered Employee Payroll	N/A	N/A
Contribution as a Percentage of Covered Payroll	N/A	N/A

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Description of Actuarially Determined Contributions

Previously, under Governmental Accounting Standards Board (GASB) Statement Nos. 43 and 45, an Annual Required Contribution (ARC) was provided in order that an OPEB plan sponsor could either contribute such amount to an OPEB trust or book the balance on the employer's financial pages as an OPEB Obligation.

GASB Nos. 74 and 75, however, eliminate the ARC as a component of the financial statement and, instead, separately identify an accounting expense that must be recorded on the financial pages - whether or not a contribution was actually made to an OPEB trust. Although a recommended contribution is no longer part of GASB reporting, we have included one along with the accounting entries in this report in order to provide information for funding. This actuarially determined contribution is designed to eventually fund your plan enough that you can pay retiree benefits directly from that trust instead of general operating funds. The amortization period is generally based on the average future working years for active employees. For this plan, the amortization period was based on the average expected lifetime of the retirees. If you would like to see more funding alternatives to consider, for a separate cost we can provide a funding valuation that would present those options and track funding progress including any Corrective Action Plan that may have been adopted or could be adopted.

Actuarially Determined Contribution	Fiscal Year Ending December 31, 2020	2019
Discount rate	7.35%	7.75%
Amortization period	10 years	11 years
Amortization method	Level $	Level $
Normal cost	$ -	$ -
Amortization of Net OPEB Liability	43,067	96,309
Interest to end of year	3,165	7,464
Total recommended employer contribution	$46,232	$103,773

State of Michigan Public Act 202 (PA 202) Contributions

PA 202 was issued by the State of Michigan and requires the calculation of other "contribution" amounts. These are

1. The Actuarially Determined Contribution (ADC) using assumptions for financial reporting and
2. The minimum required amount to be deposited into an OPEB trust

The first of these contributions as shown above, $103,773, is an amount required to be reported to the State of Michigan to be used to determine whether or not a Corrective Action Plan (CAP) must be adopted. It is not a *required* contribution.

The second of these numbers, shown in the last table on the following page of this report, is the actual minimum amount the State of Michigan requires you to deposit into a trust and it is based on the normal cost (actuarially calculated) for those covered by your plan and hired after June 30, 2018. Because your plan is closed to new employees, no deposit to the trust is required under this provision of PA 202.

Minimum funding rules under PA 202 require that retiree healthcare benefits continue to be paid from general operating funds.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Financial Information	2019
Assets (Fiduciary net position)	139,294
Liabilities (Total OPEB Liability)	458,819
Funded ratio for the Plan Year	30.4%
Actuarially determined contribution (ADC)	103,773
Is ADC calculated in compliance with No. Letter 2018-3?	Yes

Membership	2019
Active members	0
Retirees and Beneficiaries	18
Premiums paid on behalf of the retirants	59,010

Actuarial Assumptions	2019
Actuarially assumed rate of investment return	7.35%
Discount rate	7.35%
Amortization method used for funding unfunded liability	Level $
Amortization period used for funding unfunded liability	11 years
Is each division closed to new employees	Yes
Healthcare trend assumption for the next year	N/A
Healthcare inflation assumption – Long Term Trend Rate	N/A

Uniform Assumptions	2019
Actuarial value of assets using uniform assumptions	139,294
Actuarial accrued liability using uniform assumptions	463,929
Funded ratio using uniform assumptions	30.0%
Actuarially determined contribution using uniform assumptions	105,865

Information for Summary Report (minimum required contribution)[1]	2019
Retiree benefits for the year (1)	59,010
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)	N/A
Minimum required contribution under PA 202, minimum of (1) + (4) or the ADC	59,010

Public Act 202 Uniform Assumptions
Mortality tables – RP-2014 adjusted to 2006, Headcount weighted, MP-2018 mortality improvement
Expected Asset Return – 7.0%
Effective Discount rate – 7.0%
Medical trend – N/A

[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, 2018
Measurement Date	December 31, 2019

Actuarial Methods

Cost method	Entry Age Normal (level percentage of compensation)
Asset valuation method	Equal to market value of assets

Actuarial Assumptions

Discount rate – 7.35% for December 31, 2019 liability and 2020 contribution
Rationale – Average effective rate consisting of long-term return on assets and 20-year Aa Municipal Bond

20-year Aa Municipal Bond Rate – 3.26%
Rationale – December 31, 2019 bond rate

Salary scale – N/A
Rationale – The plan is closed to future retirees

Return on plan assets – 7.35%
Rationale – based on long term investment strategy

Mortality Rates – 2010 Public General Employees and Heathly Retirees, Headcount weighted, 2019 improvement
Rationale – Based on most up-to-date industry studies applicable to public employers

Turnover rates – N/A; all participants are retired

Retirement rates – N/A; all participants are retired

Dependent assumption – N/A; only retirees are covered

Claims costs - $300 per retiree per month; per benefit provisions

Medical Trend – N/A; the benefit is fixed

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

- Discount rate changed from 7.75% to 7.35%
- Mortality tables updated to public employer tables

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, 2019	2020	2021	2022	2023	2024+	Deferred Outflow of Resources	Deferred Inflow of Resources
2018	3,479	1.00	-	-	-	-	-	-	-	-
2019	(5,817)	1.00	(5,817)	-	-	-	-	-	-	-
Net recognized in OPEB expense			$ (5,817)	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Schedule of Changes in Assumptions

Year	Changes in Assumptions	Recognition period (years)	Amount Recognized in Year Ended December 31, 2019	2020	2021	2022	2023	2024+	Deferred Outflow of Resources	Deferred Inflow of Resources
2018	-	1.00	-	-	-	-	-	-	-	-
2019	13,115	1.00	13,115	-	-	-	-	-	-	-
Net recognized in OPEB expense			$ 13,115	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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, 2019	2020	2021	2022	2023	2024+	Deferred Outflow of Resources	Deferred Inflow of Resources
2018	2,312	5	462	462	462	464	-	-	1,388	-
2019	(4,655)	5	(931)	(931)	(931)	(931)	(931)	-	-	(3,724)
Net recognized in OPEB expense			$ (469)	$ (469)	$ (469)	$ (467)	$ (931)	$ -	$ 1,388	$ (3,724)

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31, 2020	2021	2022	2023	2024+
Total Deferred Outflow/(Inflow) of Resources	$ (469)	$ (469)	$ (467)	$ (931)	$ -

SUMMARY OF PLAN PROVISIONS

Plan name – Wexford County Road Commission Retiree Health Care Plan

Benefit eligibility	Retired prior to January 1, 2011
Benefit	$300 per month for the life of the retiree
Spouse	No benefit

Changes since prior valuation The Employer no longer provides health insurance directly, but instead provides a $300 per month stipend towards the retiree's purchase of health insurance

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.

Actuarially Determined Contribution (ADC) – A target or recommended contribution for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

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.

Normal Cost – For GASB 74/75 purposes, normal cost is the equivalent of service cost (see definition of service cost).

Other Post-Employment Benefits (OPEB) – Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.

GLOSSARY

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.

Plan assets – Stocks, bonds and other investments that have been segregated and restricted (usually in a trust) to provide for post-retirement benefits. Assets not segregated in a trust, or otherwise effectively restricted so that they cannot be used by the employer for other purposes, are not plan assets, even though it may be intended that those assets be used to provide post-retirement benefits.

Plan Fiduciary Net Position – The market value of plan assets as of the measurement date.

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.

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.

Reporting Date – The date that represents the fiscal year end for the plan or employer.

Service Cost – The value of portion of Total OPEB Liability 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.

Valuation Date – The date as of which an actuarial valuation is performed.