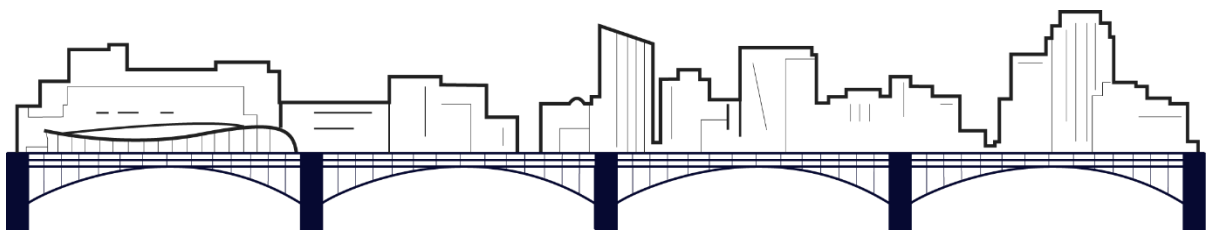


City of Flat Rock

Retiree Medical Plan

Accounting Report

for the Period Ending June 30, 2018
under GASB Statement 75



Report presented by:



December 2018

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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 No. 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 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 by:



Lisa J. Hayes
Senior Pension Analyst

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 City of Flat Rock Retiree Medical Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City of Flat Rock. 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

City of Flat Rock Retiree Medical Plan is a single employer plan established and administered by the **City of Flat Rock** 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 June 30, 2018, Retirement Plan membership consisted of the following:

Inactive plan members receiving or entitled to future benefits	46
Covered Spouse	25
Active plan members	<u>19</u>
Total participants	90

Contributions

The City of Flat Rock Retiree Medical Plan was established and is being funded under the authority of the Employer's governing body and under agreements with the unions representing various classes of employees. The Plan's funding policy is to pay expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The City's OPEB liability was measured as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Implicit in expected payroll increases
Salary increases	1.0%
Investment rate of return	N/A; plan is not pre-funded
20-year Aa Municipal bond rate	3.00%
Mortality	RPH-2014 adjusted to 2006 Total Data Set with MP-2018 mortality improvement

As this plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

Discount Rate

The discount rate used to measure the total OPEB liability was **3.00%**. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make 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. June 30, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

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 June 30, 2017	\$18,802,850 ¹	\$0	\$18,802,850
Changes during the Year			
Service Cost	192,131		192,131
Interest	561,166		561,166
Experience (Gains)/Losses	(625,617)		(625,617)
Change in plan terms	0		0
Change in actuarial assumptions	3,900,463		3,900,463
Contributions to OPEB trust		0	0
Contributions/benefit paid from general operating funds		578,941	(578,941)
Net Investment Income		0	0
Benefit Payments; Including Refunds of Employee Contributions	(578,941)	(578,941)	0
Administrative Expenses		0	0
Other Changes		0	0
Total Changes	3,449,202	0	3,449,202
Balance at June 30, 2018	\$22,252,052	\$0	\$22,252,052

Net OPEB Liability – Discount and Trend Rate Sensitivities

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

	1% Decrease	Current Rate	1% Increase
Discount			
Total OPEB Liability	\$26,054,563	\$22,252,052	\$19,254,000
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	\$26,054,563	\$22,252,052	\$19,254,000
Trend			
Total OPEB Liability	\$19,097,911	\$22,252,052	\$26,250,918
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	\$19,097,911	\$22,252,052	\$26,250,918

¹ June 30, 2015 liability, calculated with Entry Age Normal (level percent of compensation) cost method and 3% discount rate, rolled forward to June 30, 2017

OPEB EXPENSE

Components of City's OPEB Expense for the Fiscal Year Ending June 30, 2018

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending 6/30/2018
Service Cost	\$192,131
Interest on Total OPEB Liability	561,166
Experience (Gains)/Losses	(196,735)
Changes of Assumptions	1,226,561
Changes in plan terms	0
Employee Contributions	0
Projected Earnings on OPEB Plan Investments	0
Investment Earnings (Gains)/Losses	0
Administrative Expenses	0
Other Changes in Fiduciary Net Position	0
Total OPEB Expense	\$1,783,123

NET OPEB LIABILITY

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of June 30, 2018 is \$0; the plan is not pre-funded.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	0	428,882
Changes of Assumptions	2,673,902	0
Investment Earnings (Gains)/Losses	0	0
Total	\$2,673,902	\$428,882

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 June 30,	Amount Recognized
2019	\$1,029,826
2020	1,029,886
2021	185,369
2022	0
2023	0
Thereafter	0

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability June 30, 2017	\$18,802,850
Total OPEB expense	1,783,123
Contributions	(578,941)
Change in deferred outflows of resources	2,673,902
Change in deferred inflows of resources	<u>(428,882)</u>
Net OPEB Liability June 30, 2018	\$22,252,052

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	\$6,893,812
Inactive participants receiving benefits	<u>15,358,240</u>
Total	\$22,252,052

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending 6/30/2018
Total OPEB Liability	
Service Cost	\$192,131
Interest	561,166
Changes of Benefit Terms	0
Difference between Expected and Actual Experience	(625,617)
Change of Assumptions	3,900,463
Benefit Payments (Including Refunds of Employee Contributions)	(578,941)
Net Change in Total OPEB Liability	3,449,202
Total OPEB Liability – Beginning	18,802,850
Total OPEB Liability – Ending (a)	22,252,052
Plan Fiduciary Net Position	
Contributions to OPEB trust	0
Contributions/benefit payments made from general operating funds	578,941
Net Investment Income	0
Benefit Payments (Including Refunds of Employee Contributions)	(578,941)
Administrative Expenses	0
Other	0
Net Change in Fiduciary Net Position	0
Plan Fiduciary Net Position – Beginning	0
Plan Fiduciary Net Position – Ending (b)	0
Net OPEB Liability – Ending (a)-(b)	\$22,252,052
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.0%
Covered Employee Payroll	\$1,462,805
Net OPEB Liability as Percentage of Payroll	1521.2%

Schedule of Employer Contributions

	Fiscal Year Ending June 30,	
	<u>2019</u>	<u>2018</u>
Service cost	\$158,084	\$192,131
Amortization of unfunded liability	2,227,009 ¹	1,741,346
Interest	<u>71,553</u>	<u>58,004</u>
Actuarially Determined Employer Contribution	\$2,456,646	\$1,991,481
Employer Contribution (benefit payments)	TBD	<u>(578,941)</u>
Contribution Deficiency/(Excess)	TBD	\$1,412,540
Covered Employee Payroll	Not avail	\$1,462,805
Contribution as a Percentage of Covered Payroll	Not avail	136.1%

¹ Based on 11-year, level percent of pay, amortization of unfunded liability; other funding scenarios could be considered

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods for Calculation of Actuarially Determined Contribution

Valuation date June 30, 2018

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)
 Asset valuation method Not applicable; the plan is not pre-funded

Actuarial Assumptions

Discount rate – 3.00% for June 30, 2018 liability and 2019 contribution
 Rationale – 20-year Aa Municipal Bond as of June 30, 2018

Salary scale – 1.0%
 Rationale – Expected future pay increases provided by client

Return on plan assets – N/A; Plan is not pre-funded

Mortality rates – RPH-2014 adjusted to 2006 Total Data Set with MP-2018 improvement scale
 Rationale – Contemporary table consistent with Uniform Assumptions under Public Act 202

Utilization – 100% of future retirees are assumed to elect the lower cost HAP medical plan and the “High” dental and vision plan, except that active employees currently waiving coverage are assumed to waive coverage at retirement; actual coverage used for non-active
 Rationale – Benefits are provided at low cost to retirees

Medical inflation rate

Pre-65: 8.5% in 2019 graded down 0.25% per year to an ultimate rate of 4.5%
 Post-65: 7.0% in 2019 graded down 0.25% per year to an ultimate rate of 4.5%

Dental and vision inflation rate – 4.0%

Rationale – Based on industry expectations for future healthcare costs; consistent with Uniform Assumptions under Public Act 202

Marital assumption – 65% of males and 30% of females will have covered spouse at retirement with females 3 years younger than males; actual status used for retirees
 Rationale – Based on plan experience

Turnover rates - Sample rates below

Rationale – Based on rates used in the valuation of MERS pension liabilities

Years of Service	Rate
0	19.6%
1	16.3
2	13.3
3	10.5
4	8.6
5	6.9
10	4.6
15	3.4
20	2.6
25	2.2

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Retirement rates - Sample rates below

Rationale - Based on rates used in the valuation of MERS pension liabilities

Age	Clerical, DPS, Firefighters and Administrative employees	Patrolmen, Police Command, MAP and Administrative Officers
50-51		2.0%
52		3.3
53		3.8
54		5.6
55		4.3
56		4.2
57		4.1
58		5.0
59		6.2
60-64	21.0%	21.0
65-69	24.0	24.0
70	100.0	100.0

Implicit Subsidy – Age-weighted costs valued

Rationale – Active employees and retirees are rated together under the employer’s health insurance plans

Annual pre-65 per capita claims cost

Age	Medical HAP plan - High		Medical HAP plan - Low	
	Retiree Cost	Spouse Cost	Retiree Cost	Spouse Cost
45-49	\$16,135	\$18,114	\$10,224	\$10,126
50-54	20,304	23,040	12,867	12,879
55-59	26,543	27,648	16,820	15,455
60-64	32,612	31,734	20,666	17,739

Rationale – Age-weighted costs based on actual pre-65 premiums in effect as of the valuation date

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Monthly cost basis

	Medical HAP plan High	Medical HAP plan Low	Benistar	Dental & Vision High	Dental & Vision Low
Pre-Medicare Retiree	\$1,492.34	\$ 945.68		\$35.80	\$23.96
Pre-Medicare Spouse	1,940.09	1,084.50		35.51	23.96
Post-Medicare Retiree			\$576.82	35.80	23.96
Post-Medicare Spouse			576.82	35.51	23.96

Rationale – Actual pre-65 premiums in effect as of the valuation date

40% excise tax on “high cost” group health coverage – Premiums are projected to exceed the 2022 thresholds; the thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following

Method changes since prior valuation

- Funding method changed from Projected Unit Credit to Entry Age Normal (level percentage of compensation) and salary scale assumption of 1% adopted

Assumption changes since prior valuation

- Discount rate lowered from 4.0% to 3.0%
- Age-weighted costs valued
- Mortality tables updated from IRS tables to RP-2014 dynamic tables
- Medical inflation updated consistent with Uniform Assumptions under Public Act 202

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 June 30,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	(625,617)	3.18	(196,735)	(196,735)	(196,735)	(35,412)	-	(428,882)	
Net recognized in OPEB expense			<u>\$ (196,735)</u>	<u>\$ (196,735)</u>	<u>\$ (196,735)</u>	<u>\$ (35,412)</u>	<u>\$ -</u>	<u>\$ (428,882)</u>	

Schedule of Changes in Assumptions

Year	Changes in Assumptions	Recognition period (years)	Amount Recognized in Year Ended June 30,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	3,900,463	3.18	1,226,561	1,226,561	1,226,561	220,781	-	2,673,902	
Net recognized in OPEB expense			<u>\$ 1,226,561</u>	<u>\$ 1,226,561</u>	<u>\$ 1,226,561</u>	<u>\$ 220,781</u>	<u>\$ -</u>	<u>\$ 2,673,902</u>	

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 June 30,					Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022		
2018	-	5	-	-	-	-	-	-	
Net recognized in OPEB expense			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended June 30,			
	2019	2020	2021	2022
Total Deferred Outflow/(Inflow) of Resources	\$ 1,029,826	\$ 1,029,826	\$ 185,369	\$ -

SUMMARY OF PLAN PROVISIONS

Plan name City of Flat Rock Retiree Medical Plan

Eligibility Requirements

DPS and Clerical (MAPE)	Hired on or before July 1, 2012; Age 60 with 25 years of service for full retirement (10 for partial coverage)
Firefighters (MAFF)	Hired on or before November 22, 2011; Age 60 with 25 years of service for full retirement (10 for partial coverage)
Police – Patrol and Command (POLC)	Hired on or before May 15, 2014; Age 50 with 25 years of service for full retirement (10 for partial coverage)
Administrative Employees (ADME)	Hired on or before September 1, 2011; Age 60 with 25 years of service for full retirement (10 for partial coverage)
Administrative Officers (ADMO)	Hired on or before September 1, 2011; Age 50 with 25 years of service for full retirement (10 for partial coverage)

Summary of Benefits

Firefighters (MAFF), Administrative Employees and Officers	After 10 years of service, city will pay 40% of medical, dental and vision premium, then 4% for each year thereafter up to 100%
DPS and Clerical (MAPE); Police – Patrol and Command (POLC)	After 10 years of service, city will pay 40% of medical, dental and vision premium, then 4% for each year thereafter up to a maximum of 100% with the retiree or surviving spouse contributing a minimum of \$100 per month
Spouse Coverage	Spouse covered to same extent as retiree

Changes since prior valuation Eligibility and coverage clarified by division

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.