

May 3, 2018

PERSONAL & CONFIDENTIAL

Ms. Valerie Thornburg
County of Kalkaska
605 North Birch Street
Kalkaska, MI 49646

RE: Kalkaska County Retiree Medical Plan

Dear Valerie:

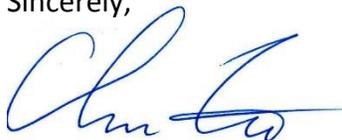
Enclosed is a **revised** copy of your OPEB accounting report for the fiscal year ending December 31, 2017. This information is intended to assist you in complying with Governmental Accounting Standards Board Statement (GASB) No. 74 Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.

While GASB No. 74 is intended to satisfy *plan* accounting requirements and is effective for your 2017 plan year, GASB No. 75 is required to meet *employer* accounting standards but is not effective for your plan until December 31, 2018. Hence, GASB No. 45 accounting may still be used for 2017 employer accounting. Accordingly, Statement No. 45 information has been included in this report. Also included is the optional 2017 GASB No. 75 expense, which would be used for your employer accounting if electing GASB No. 75 one year early for the fiscal year ending December 31, 2017.

If you wait to elect GASB No. 75 until it's required for your fiscal year ending December 31, 2018, we will need to collect December 31, 2018 asset values to determine an updated 2018 Net OPEB expense. That updated information will be provided in a separate report supplement upon request after the asset values become available for 2018.

If you have any questions about this report, please call me at (616) 742-9244.

Sincerely,



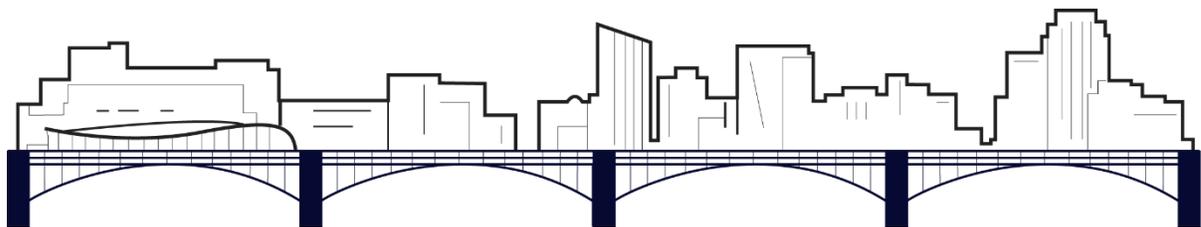
Christian R. Veenstra, ASA, MAAA, EA
President / Enrolled Actuary

Enclosure

County of Kalkaska Other Post Employment Benefits Plan

Revised Accounting Report

for the Period Ending December 31, 2017
under GASB Statement 74/75 and GASB 45



Report presented by:



May 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 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.

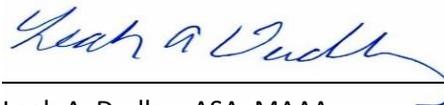
The actuary certifying this report represents herself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared 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 County of Kalkaska Medical Plan and additions to/deductions from the County's fiduciary net position have been determined on the same basis as they are reported by the County of Kalkaska. 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

County of Kalkaska Medical Plan is a single employer plan established and administered by **County of Kalkaska** and can be amended at its discretion.

Benefits Provided

A complete summary of plan provisions is available on page 11.

Summary of Plan Participants

As of December 31, 2017, Retirement Plan membership consisted of the following:

	Commission				
	on Aging	KALISEUM	Others	Sheriff	Total
Retirees and Survivors	2	0	9	11	22
Active Plan Members	<u>3</u>	<u>0</u>	<u>25</u>	<u>19</u>	<u>47</u>
Total	5	0	34	30	69

Contributions

The County of Kalkaska Retiree Medical Benefits Plan was established and is being funded under the authority of the County. The plan's funding policy is that the employer will make contributions to a trust to the extent possible. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The County's OPEB liability was measured as of December 31, 2017

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	included in investment rate of return
Salary increases	1.5%
Investment rate of return	4.76% including inflation
Mortality	As set forth in IRS Regulations for 2018 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the retirement plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (including inflation)
Cash & Cash Alternatives	10.0%	1.00%
Investment Grade Short Maturity Fixed Income	40.0	4.14
Non Investment Grade Fixed Income	10.0	5.86
Allocation Strategies	10.0	5.16
World Allocation Strategies	30.0	6.35

The sum of each target allocation times its long-term expected rate is 4.76%.

Discount Rate

The discount rate used to measure the total OPEB liability was **4.76%**. The projection of cash flows used to determine the discount rate assumed that County contributions will be consistent with the actuarially determined amount. Based on those assumptions, 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 "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. December 31, 2017 is the first year of required compliance with GASB 74, so there is no required discount rate change to disclose.

NET OPEB LIABILITY – GASB 74 PLAN ACCOUNTING

Changes in the Net OPEB Liability

	Commission On Aging	Others	Sheriff	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at January 1, 2017	9,904	197,044	306,984	513,932¹	120,788	393,144
Changes during the Year						
Service Cost (Beginning of Year)	985	8,163	10,409	19,557		19,557
Interest	518	9,203	14,257	23,978		23,978
Experience (Gains)/Losses	(3,713)	33,372	15,096	44,754		44,754
Change in actuarial assumptions	19,637	301,404	370,763	691,804		691,804
Contributions to OPEB trust					124,000 ²	(124,000)
Contributions/benefit paid from general operating funds					59,519	(59,519)
Net Investment Income					7,532	(7,532)
Benefit Payments; Including Refunds of Employee Contributions		(23,729)	(35,790)	(59,519)	(59,519)	0
Administrative Expenses	0	0	0	0	0	0
Other Changes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Changes	17,427	328,413	374,735	720,574	131,532	589,042
Balance at December 31, 2017	27,331	525,457	681,719	1,234,506	252,320	982,186

¹ 2015 results recalculated with 4.76% discount rate and rolled forward to 1/1/2017

² The \$124,000 contribution made in 2017 includes \$62,000 accrued for 2016

OPEB OBLIGATION AND EXPENSE – GASB 45 OPTION

Notes to Employer’s Financial Statements

Annual Required Contribution for the Fiscal Year Ending December 31, 2017 (at 4.0% discount, does not include implicit subsidy)

1. Service Cost (End of Year)	\$ 10,378
2. Unfunded Actuarial Accrued Liability (UAAL)	230,905
3. Amortization Factor	8.1814
4. Amortization of UAAL = (2) / (3)	28,223
5. Annual Required Contribution (ARC) = [(1)+(4)]	38,601

Annual Cost for Other Post-Employment Benefits (OPEB)

	Fiscal Year Ending December 31, 2017
1. Annual Required Contribution (ARC)	\$38,601
2. Interest on Net OPEB Asset	(10,688)
3. Adjustment to ARC	<u>32,660</u>
4. Annual OPEB Cost = (1) + (2) + (3)	60,573
5. Contributions Made	121,519
6. Increase in Net OPEB Asset = (4) – (5)	(60,946)
7. Net OPEB Asset (Beginning of Year)	<u>(267,207)</u>
8. Net OPEB Asset (End of Year) = (6) + (7)	<u>(328,153)</u>

Net OPEB Liability – Discount and Trend Rate Sensitivities

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

	1% Decrease, 3.76%	Current Discount Rate, 4.76%	1% Increase, 5.76%
Discount			
Total OPEB Liability	\$1,325,135	\$1,234,506	\$1,153,964
Plan Fiduciary Net Position	<u>252,320</u>	<u>252,320</u>	<u>252,320</u>
Net OPEB Liability	1,072,815	982,186	901,644

	1% Decrease	Current trend	1% Increase
Trend			
Total OPEB Liability	\$1,175,436	\$1,234,506	\$1,303,776
Plan Fiduciary Net Position	<u>252,320</u>	<u>252,320</u>	<u>252,320</u>
Net OPEB Liability	923,116	982,186	1,051,456

2017 OPEB EXPENSE – GASB 75 OPTION

Components of County's OPEB Expense for the Fiscal Year Ending December 31, 2017

Below are the components of the Total OPEB Expense (at 4.76% discount):

Fiscal Year Ending December 31, 2017	
Service Cost (Beginning of Year)	\$ 19,557
Interest on Total OPEB Liability	23,978
Experience (Gains)/Losses	6,156
Changes of Assumptions	95,159
Employee Contributions	-0-
Projected Earnings on OPEB Plan Investments	(8,701)
Investment Earnings (Gains)/Losses	234
Administrative Expenses	-0-
Other Changes in Fiduciary Net Position	-0-
Total OPEB Expense	\$ 136,383

2017 NET OPEB LIABILITY – GASB 75 OPTION

Net OPEB Liability at December 31, 2017

12/31/2017 Net OPEB Liability	
Active participants	\$ 682,250
Inactive participants receiving benefits	<u>552,255</u>
Total	\$ 1,234,506

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2017 is \$252,320

Deferred Outflows and Inflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	38,598	0
Changes of Assumptions	596,645	0
Investment Earnings (Gains)/Losses	<u>935</u>	<u>0</u>
Total	\$636,178	\$0

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
2018	\$ 101,549
2019	101,549
2020	101,549
2021	101,548
2022	101,315
Thereafter	\$ 128,668

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending December 31, <u>2017</u>
Total OPEB Liability	
Service Cost (Beginning of Year)	19,557
Interest	23,978
Changes of Benefit Terms	0
Difference between Expected and Actual Experience	44,754
Change of Assumptions	691,804
Benefit Payments (Including Refunds of Employee Contributions)	(59,519)
Net Change in Total OPEB Liability	720,574
Total OPEB Liability – Beginning	513,932
Total OPEB Liability – Ending (a)	1,234,506
Plan Fiduciary Net Position	
Contributions to OPEB trust	124,000 ¹
Contributions/benefit payments made from general operating funds	59,519
Net Investment Income	7,532
Benefit Payments (Including Refunds of Employee Contributions)	(59,519)
Administrative Expenses	0
Other	0
Net Change in Fiduciary Net Position	131,532
Plan Fiduciary Net Position – Beginning	120,788
Plan Fiduciary Net Position – Ending (b)	252,320
Net OPEB Liability – Ending (a)-(b)	982,186
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	20.4%
Covered Employee Payroll	2,083,575
Net OPEB Liability as Percentage of Payroll	47.1%

Schedule of Employer Contributions

	Fiscal Year Ending December 31,		
	<u>2017</u> ²	<u>2017</u> ³	<u>2018</u>
Service cost (End of Year)	10,378	20,488	19,110
Amortization of unfunded liability	<u>28,223</u>	<u>153,963</u>	<u>154,412</u>
Actuarially Determined Employer Contribution	38,601	174,451	173,522
Employer Contribution	<u>121,519</u>	<u>121,519</u>	TBD
Contribution Deficiency/(Excess)	(82,918)	52,932	TBD
Covered Employee Payroll	2,083,575	2,083,575	Not avail.
Contribution as a Percentage of Covered Payroll	5.8%	5.8%	Not avail.

¹ The \$124,000 contribution made in 2017 includes \$62,000 accrued for 2016

² Based on 4.00% discount, 9-year, level percent of pay, amortization of unfunded liability (does not include implicit subsidy)

³ Based on 4.76% discount, 7-year, level percent of pay, amortization of unfunded liability (includes implicit subsidy)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions Used in Calculation of Actuarially Determined Contribution

Valuation Date December 31, 2017

Actuarial Methods

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

Actuarial Assumptions

Discount rate – 4.76% for December 31, 2017 liability and 2018 contribution
 Rationale – Average effective rate consisting of long term return on assets and 20-year Aa Municipal Bond

20-year Aa Municipal Bond Rate – 3.16%
 Rationale – Current bond rate

Payroll inflation – 1.5%
 Rationale – Expected future pay increases provided by client

Return on plan assets – 4.76%
 Rationale – Consistent with plan investment experience

Mortality rates – 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables
 Rationale – Based on most up-to-date industry studies applicable to public employers

Utilization – Eligible employees will elect medical coverage at retirement consistent with current coverage; actual coverage used for retirees
 Rationale – Consistent with experience

Turnover rates – Sample rates below
 Rationale – Consistent with experience

Age	Years of Service					
	0	1	2	3	4	5+
25	0.180	0.180	0.160	0.120	0.100	0.090
30	0.180	0.180	0.160	0.120	0.100	0.090
35	0.180	0.180	0.160	0.120	0.100	0.070
40	0.180	0.180	0.160	0.120	0.100	0.050
45	0.180	0.180	0.160	0.120	0.100	0.040
50	0.180	0.180	0.160	0.120	0.100	0.040
55	0.180	0.180	0.160	0.120	0.100	0.030

Retirement rates – Rates as shown below
 Rationale – Based on Employer Experience

Age	Rate	Age	Rate
49-54	10%	58	25%
55-56	15	59-61	0
57	20	62	100

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Implicit subsidy – age-weighted costs valued

Rationale – active employees and pre-65 retirees are covered at the same rates

Marital assumption – None of the active employees are assumed to have a covered spouse at retirement

Rationale – Spouse benefits are provided at full cost to retirees

Age-weighted costs – see annual costs below

Rationale – age graded rates based on medical premiums and HRA estimated contributions in effect as of the valuation date

Age	Annual Cost
45-49	6,051
50-54	8,320
55-59	9,385
60-64	11,059

Contribution basis – See monthly rates below

Rationale – Actual premiums in effect as of the valuation date

Monthly Premiums	Single
BCBS premium	\$517.49
HRA estimated claims	25.38
Dental	
Non-Sheriff	21.51
Sheriff	25.58
Vision	6.47

Medical inflation rate – Pre-65: 8.0% in 2018 graded down 0.5% per year to an ultimate rate of 5.0%

Rationale – Based on market expectations for increases in the cost of medical care.

Dental and vision inflation – 3% per year

Rationale – Based on market expectations for increases in the cost of dental and vision care.

40% excise tax on “high cost” group health coverage – In the aggregate, monthly premiums are not projected to exceed the 2020 thresholds for 25 years; The thresholds were indexed by CPI plus 1% in 2021 and CPI only beginning in 2022; The CPI is assumed to be 3% in 2021 and following

Assumption changes since prior valuation

- Discount rate and return on assets changed from 4.0% to 4.76%
- Mortality updated to 2018 rates
- Pre-65 trend rates updated **from** 7.0% graded to 5.0% over 4 years **to** 8.0% graded down 0.5% per year for 6 years
- Implicit subsidy valued

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
			2017	2018	2019	2020	2021	2022+		
2017	44,754	7.27	<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>13,974</u>	<u>38,598</u>	<u>0</u>
Net Recognized in OPEB Expense			<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>6,156</u>	<u>13,974</u>	<u>38,598</u>	<u>0</u>

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
			2017	2018	2019	2020	2021	2022+		
2017	691,804	7.27	<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>216,009</u>	<u>596,645</u>	<u>0</u>
Net Recognized in OPEB Expense			<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>95,159</u>	<u>216,009</u>	<u>596,645</u>	<u>0</u>

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
			2017	2018	2019	2020	2021	2022+		
2017	1,169	5.00	<u>234</u>	<u>234</u>	<u>234</u>	<u>234</u>	<u>233</u>	<u>0</u>	<u>935</u>	<u>0</u>
Net Recognized in OPEB Expense			<u>234</u>	<u>234</u>	<u>234</u>	<u>234</u>	<u>233</u>	<u>0</u>	<u>935</u>	<u>0</u>

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2018	2019	2020	2021	2022+
Total Deferred Outflow/(Inflow) of Resources	<u>101,549</u>	<u>101,549</u>	<u>101,549</u>	<u>101,548</u>	<u>229,983</u>

SUMMARY OF PLAN PROVISIONS

Eligibility

MAPE (Commission on Aging, Kaliseum,
Library and others)

Age 55 with 25 years of service or age 60 with 15 years of service. Employees hired after January 1, 2014 are not eligible for benefits

Sheriff

25 years of service or age 60 with 15 years of service and do not have coverage from another source. Employees hired on or after January 1, 2013 are not eligible for benefits

Teamsters

Age 55 with 25 years of service or age 60 with 15 years of service and do not have coverage from another source. Employees hired on or after December 31, 2012 are not eligible for benefits

Employer Pre-65 benefits

25 years of service at retirement

Employer pays pre-65 single premium up to \$500 per month

15 years of service at retirement

Employer pays 50% of pre-65 single premium up to \$250 per month

Employer Post-65 benefits

Supplemental coverage is available at 100% cost to retirees

Spouse Benefits

Coverage is available for dependents at 100% cost to retiree

Retiree Contributions

In addition to any dependent coverage, retiree must pay for any actual premium not paid by the employer

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 County 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 NPL 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 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.