

# City of Southgate Retiree Health Care Plan - Municipal Employees

GASB Statement Nos. 74 and 75, Accounting and Financial  
Reporting for Postemployment Benefits Other Than Pensions  
June 30, 2018



September 13, 2018

Mr. David Angileri, Finance Director  
City of Southgate Retiree Health Care Plan  
- Municipal Employees  
14400 Dix-Toledo Road  
Southgate, Michigan 48915

Dear Mr. Angileri:

This report provides information on behalf of the City of Southgate Retiree Health Care Plan - Municipal Employees in connection with the Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. GASB Statement No. 74 is the accounting standard, which applies to Other Postemployment Benefits (OPEB) plans that are administered through trusts or equivalent arrangements. GASB Statement No. 75 establishes accounting and financial reporting requirements for state and local government employers that provide their employees with postemployment benefits other than pensions.

The calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB Statement Nos. 74 and 75. The Net OPEB Liability is not an appropriate measure for measuring the sufficiency of plan assets to cover the estimated cost of settling the employer's benefit obligation. The Net OPEB Liability is not an appropriate measure for assessing the need for or amount of future employer contributions. The calculation of the plan's liability for this report is not applicable for funding purposes of the plan. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB Statement Nos. 74 and 75 may produce significantly different results. This report may be provided to parties other than the City of Southgate Retiree Health Care Plan - Municipal Employees only in its entirety and only with the permission of the City of Southgate Retiree Health Care Plan - Municipal Employees. GRS is not responsible for unauthorized use of this report.

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, especially for additional discussions of the nature of actuarial calculations and for more information related to participant data, economic, demographic, health care trend, morbidity assumptions, and benefit provisions.

This report is based upon information, furnished to us by the City, concerning Other Postemployment Benefits (OPEB), active members, deferred vested members, retirees and beneficiaries, and financial data. This information was checked for internal consistency, but it was not audited.

Mr. David Angileri  
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Based on the available data, the information contained in this report is accurate and fairly represents the actuarial position of the City of Southgate Retiree Health Care Plan - Municipal Employees as of the reporting date. All calculations have been made in conformity with generally accepted actuarial principles and practices as well as the Actuarial Standards of Practice. If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The signing actuaries are independent of the plan sponsor.

James D. Anderson and Laura Frankowiak are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



James D. Anderson, FSA, FCA, EA, MAAA



Laura Frankowiak, ASA, MAAA

JDA/LF:dj



Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Southgate Retiree Health Care Plan - Municipal Employees. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

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# SECTION A

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## EXECUTIVE SUMMARY

# Executive Summary as of June 30, 2018

	<b>2018</b>
Actuarial Valuation Date	June 30, 2017
Measurement Date of the Net OPEB Liability	June 30, 2018
Employer's Fiscal Year Ending Date (Reporting Date)	June 30, 2018

## Membership

Number of <sup>(1)</sup>	
- Retirees and Beneficiaries	73
- Inactive, Nonretired Members	0
- Active Members	45
- Total	118
Covered Payroll <sup>(2)</sup>	\$ 2,380,737

## Net OPEB Liability

Total OPEB Liability	\$ 31,783,860
Plan Fiduciary Net Position	2,812,124
Net OPEB Liability	\$ 28,971,736
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	8.85 %
Net OPEB Liability as a Percentage of Covered Payroll	1,216.92 %

## Development of the Single Discount Rate

Single Discount Rate	3.62 %
Long-Term Expected Rate of Investment Return	3.62 %
Long-Term Municipal Bond Rate <sup>(3)</sup>	3.62 %

**Total OPEB Expense** \$ 77,153

## Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 3,465,148
Changes in assumptions	0	195,949
Net difference between projected and actual earnings on OPEB plan investments	77,810	0
<b>Total</b>	<b>\$ 77,810</b>	<b>\$ 3,661,097</b>

<sup>(1)</sup> As of the actuarial valuation date. GRS does not have membership counts as of June 30, 2018. The City of Southgate staff and auditors may decide that providing membership counts as of the valuation date is sufficient to meet GASB disclosure requirements. Alternatively, the City of Southgate may decide to update the membership counts to be as of the Plan's fiscal year end.

<sup>(2)</sup> Payroll provided separately by employer.

<sup>(3)</sup> Source:

Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year GO AA Index" as of June 29, 2018. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.

# Discussion

## Accounting Standard

For post-employment (OPEB) benefit plans that are administered through trusts or equivalent arrangements, Governmental Accounting Standards Board (GASB) Statement No. 74, “Financial Reporting for Postemployment Benefit Plans other than Pension Plans,” replaces the requirements of GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” Similarly, GASB Statement No. 75 establishes standards for state and local government employers (as well as non-employer contributing entities) to account for and disclose net OPEB liability, OPEB expense, and other information associated with providing OPEB to their employees (and former employees) on their financial statements.

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016 and June 15, 2017, respectively.

The following discussion provides a summary of the information that is required to be disclosed under these accounting standards. A number of these disclosure items are provided in this report. However, certain information, such as notes regarding accounting policies and investments, is not included in this report. As a result, the plan sponsor will be responsible for preparing and disclosing the non-actuarial information needed to comply with these accounting standards.

## Financial Statements

GASB Statement No. 75 requires state and local government employers to recognize the net OPEB liability and the OPEB expense on their financial statements, along with the related deferred outflows and inflows of resources. The net OPEB liability is the difference between the total OPEB liability and the plan’s fiduciary net position. In traditional actuarial terms, this is analogous to the accrued liability less the market value of assets.

GASB Statement No. 75 states the employer contributions made to the OPEB plan subsequent to the measurement date and before the end of the employer’s reporting period should be reported as a deferred outflow of resources. The information contained in this report does not incorporate any employer contributions made subsequent to the measurement date of June 30, 2018.

The OPEB expense recognized each fiscal year is equal to the change in the net OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of the liability and investment experience.

GASB Statement No. 74 requires defined benefit OPEB plans which are administered as trusts or equivalent arrangements to present two financial statements: a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the assets and liabilities of the OPEB plan at the end of the OPEB plan’s reporting period. The statement of changes in fiduciary net position presents the additions, such as contributions and investment income, and deductions, such as benefit payments and expense, and net increase or decrease in the fiduciary net position.

## Implicit Subsidy

GASB Statements No. 75 and No. 68 are conceptually very similar in terms of the liability which is recognized on the balance sheet, the expense calculation, and the corresponding deferred outflows and inflows of resources. The main differences between the standards are related to the differences between pension and health care benefits. One particular difference is a concept referred to as the “implicit subsidy,” which applies to health plans that utilize blended premiums, that has no counterpart in GASB Statement No. 68. The City of Southgate Retiree Health Care Plan - Municipal Employees utilizes a “blended premium” structure for its health plan. Said another way, the overall health care premiums for active employees and non-Medicare retirees are stated in terms of a single “blended premium.” The difference between the underlying retiree claims and the blended overall health care premium is referred to as an “implicit” or “hidden” subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

GASB defines the employer provided OPEB benefit as the difference between the underlying claims costs and the premium contributions made by retirees. As a result, the employer’s portion of the blended health care premium is not what GASB considers the employer benefit. In order to account for the employer provided OPEB benefit, as it is defined by GASB, the explicit premium subsidies need to be adjusted to reflect the implicit subsidy (the difference between the estimated retiree claims and the overall premiums).

For plans that use a blended premium structure, Illustrations B1-1 and B1-2 of Implementation Guide No. 2017-3 describe how a portion of the payments made on behalf of the active employees should be reclassified as benefit payments for retiree health care to reflect the retirees’ underlying claims costs. Adjusting the explicit health care costs for active employees and retirees by the implicit subsidy estimates provided in this report is equivalent to the reclassification described in the Implementation Guide. **It is important to note that the implicit subsidy is considered an employer contribution and any employer contributions related to OPEB need to include the implicit subsidy.** This report provides the estimated implicit subsidy in Section B for the measurement period that can be used to determine the implicit subsidy for the purpose of the deferred outflow of resources related to benefit payments made after the measurement date.

To summarize, because the health plan utilizes blended premiums, the benefit payments for GASB Statement No. 75 purposes need to include an adjustment for the implicit subsidy. This adjustment reflects the underlying cost of the benefits provided to retirees, which is how GASB defines the employer’s OPEB benefit/liability. This adjustment is needed for the benefits during the measurement period and also for the purpose of the deferred outflow related to the benefits paid after the measurement date.

## Notes to Financial Statements

GASB Statement No. 75 requires the notes of the employer's financial statements to disclose the total OPEB expense, the OPEB plan's liabilities and assets, and deferred outflows of resources and inflows of resources related to OPEB.

GASB Statement Nos. 74 and 75 require the notes of the financial statements for employers and OPEB plans to include certain additional information. The list of disclosure items should include:

- the name of the OPEB plan, the administrator of the OPEB plan; and the identification of whether the OPEB plan is a single-employer, agent, or cost-sharing OPEB plan;
- a description of the benefits provided by the plan;
- A brief description of changes in benefit terms or assumptions that affected the measurement of the total OPEB liability since the prior measurement date;
- the number of plan members by category and if the plan is closed;
- a description of the plan's funding policy, which includes member and employer contribution requirements;
- the OPEB plan's investment policies;
- the OPEB plan's fiduciary net position and the net pension liability;
- the net OPEB liability using +/- 1% on the discount rate;
- the net OPEB liability using +/- 1% on the healthcare trend rate;
- significant assumptions and methods used to calculate the total pension liability;
- inputs to the discount rates; and
- certain information about mortality assumptions and the dates of experience studies.

OPEB plans that are administered through trusts or equivalent arrangements are required to disclose additional information in accordance with GASB Statement No. 74. This information includes:

- the composition of the OPEB plan's Board and the authority under which benefit terms may be amended;
- a description of how fair value is determined;
- information regarding certain reserves and investments, which include concentrations of investments greater than or equal to 5%, receivables, and insurance contracts excluded from plan assets; and
- annual money-weighted rate of return.

## Required Supplementary Information

GASB Statement No. 74 requires a 10-year fiscal history of:

- sources of changes in the net OPEB liability.
- information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percent of covered-employee payroll.
- comparison of the actual employer contributions to the actuarially determined contributions based on the plan's funding policy.
- for plans with an actuarially determined contribution, the schedule covering each of the 10 most recent fiscal years of the actuarially determined contribution, contributions to the OPEB plan and related ratios.

## Frequency and Timing of the Actuarial Valuation

An actuarial valuation to determine the total OPEB liability is required to be performed at least every two years. For the employer's financial reporting purposes, the net OPEB liability and OPEB expense should be measured as of the employer's "measurement date," which may not be earlier than the employer's prior fiscal year end-date. If the actuarial valuation used to determine the total pension liability is not calculated as of the measurement date, the total OPEB liability is required to be rolled forward from the actuarial valuation date to the measurement date.

The total OPEB liability shown in this report is based on an actuarial valuation performed as of June 30, 2017 and a measurement date of June 30, 2018.

## Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 3.62%; the municipal bond rate is 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"); and the resulting Single Discount Rate is 3.62%. The single discount rate is equal to the long-term municipal bond rate and is supported by the current investment policy.

## Actuarial Assumptions

The actuarial assumptions used to value the liabilities are outlined in detail in Section H. The assumptions include details on the healthcare trend assumption, the aging factors, as well as the cost method used to develop the OPEB expense. Certain Demographic assumptions were selected or affirmed based on the experience study covering the five year period ending June 30, 2012, as conducted for the pension retirement plan in an experience study dated February 12, 2014. Price and base wage assumptions and mortality assumptions were based upon general conditions discussed in the report dated September 9, 2016. The long term expected rate of return was set to the municipal bond rate on the basis of the investment policy.

## Future Uncertainty or Risk

Future results may differ from those anticipated in this valuation. Reasons include, but are not limited to:

- Actual medical trend differing from expected;
- Changes in the healthcare plan designs offered to active and retired members; and
- Participant behavior differing from expected, e.g.,
  - Elections at retirement;
  - One-person versus two-person coverage elections; and
  - Time of retirement or termination.

## Benefits Valued

The benefit provisions that were valued are described in Section E. The valuation is required to be performed on the current benefit terms and existing legal agreements. Consideration is to be given to the written plan document as well as other communications between the employer and plan members and an established pattern of practice for cost sharing. The summary of major plan provisions is designed to outline principal plan benefits. If the plan summary is not in accordance with the actual provisions, please alert the actuaries immediately, so they can both be sure the proper provisions are valued.

## Effective Date and Transition

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016, and June 15, 2017, respectively.

## SECTION B

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### FINANCIAL STATEMENTS

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Southgate Retiree Health Care Plan - Municipal Employees. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

# Statement of OPEB Expense Under GASB Statement No. 75

## Fiscal Year Ended June 30, 2018

### A. Expense

1. Service Cost	\$	651,218
2. Interest on the Total OPEB Liability		1,283,324
3. Current-Period Benefit Changes		0
4. Employee Contributions (made negative for addition here)		0
5. Projected Earnings on Plan Investments (made negative for addition here)		(98,785)
6. OPEB Plan Administrative Expense		3,500
7. Other Changes in Plan Fiduciary Net Position		0
8. Recognition of Outflow (Inflow) of Resources due to Liabilities		(1,781,556)
9. Recognition of Outflow (Inflow) of Resources due to Assets		19,452
<b>10. Total OPEB Expense</b>	<b>\$</b>	<b>77,153</b>

### Recognition of Deferred Outflows and Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the expected remaining service lives of all active employees in the plan was approximately 360 years. Additionally, the total plan membership (active employees and inactive employees) was 118 as of the valuation date. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the current measurement period is 3.0550 years.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

# Statement of Outflows and Inflows Arising from Current Reporting Period Fiscal Year Ended June 30, 2018

## A. Outflows (Inflows) of Resources due to Liabilities

1. Difference between expected and actual experience of the Total OPEB Liability (gains) or losses	\$ (5,151,351)
2. Assumption Changes (gains) or losses	\$ (291,302)
3. Recognition period for Liabilities: Average of the expected remaining service lives of all employees {in years}	3.0550
4. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for the difference between expected and actual experience of the Total OPEB Liability	\$ (1,686,203)
5. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for assumption changes	\$ (95,353)
6. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Liabilities	<u>\$ (1,781,556)</u>
7. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for the difference between expected and actual experience of the Total OPEB Liability	\$ (3,465,148)
8. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for assumption changes	\$ (195,949)
9. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Liabilities	<u>\$ (3,661,097)</u>

## B. Outflows (Inflows) of Resources due to Assets

1. Net difference between projected and actual earnings on OPEB plan investments (gains) or losses	\$ 97,262
2. Recognition period for Assets {in years}	5.0000
3. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Assets	\$ 19,452
4. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Assets	\$ 77,810

# Statement of Outflows and Inflows Arising from Current and Prior Reporting Periods Fiscal Year Ended June 30, 2018

## A. Outflows and Inflows of Resources by Source to be Recognized in Current OPEB Expense

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 1,686,203	\$ (1,686,203)
2. Assumption changes	0	95,353	(95,353)
3. Net difference between projected and actual earnings on OPEB plan investments	19,452	0	19,452
<b>4. Total</b>	<b>\$ 19,452</b>	<b>\$ 1,781,556</b>	<b>\$ (1,762,104)</b>

## B. Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 3,465,148	\$ (3,465,148)
2. Assumption changes	0	195,949	(195,949)
3. Net difference between projected and actual earnings on OPEB plan investments	77,810	0	77,810
<b>4. Total</b>	<b>\$ 77,810</b>	<b>\$ 3,661,097</b>	<b>\$ (3,583,287)</b>

## C. Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future OPEB Expenses

Year Ending June 30	Net Deferred Outflows of Resources
2019	\$ (1,762,104)
2020	(1,762,104)
2021	(78,533)
2022	19,454
2023	0
Thereafter	0
<b>Total</b>	<b>\$ (3,583,287)</b>

Employer contributions that were made subsequent to the measurement date of the Net OPEB Liability and prior to the end of the employer's reporting period should be reported by the employer as a deferred outflow of resources related to OPEB. The information contained in this report does not incorporate any contributions made subsequent to the measurement date.

See Paragraph 44 of GASB 75 for single and agent employers with trusted plans.

Also, Question 4.32 of Implementation Guide No. 2017-1 provides additional guidance for trusted plans.

# Statement of Fiduciary Net Position as of June 30, 2018

	<b>2018</b>
<b>Assets</b>	
Cash and Deposits	\$ 737,577
Receivables	
Accounts Receivable - Sale of Investments	\$ 0
Accrued Interest and Other Dividends	0
Contributions	0
Accounts Receivable - Other	0
Total Receivables	\$ 0
Investments	
Fixed Income	\$ 2,074,547
Domestic Equities	0
International Equities	0
Real Estate	0
Other - Diversified Investment Pool	0
Total Investments	\$ 2,074,547
<b>Total Assets</b>	<b>\$ 2,812,124</b>
 <b>Liabilities</b>	
Payables	
Accounts Payable - Purchase of Investments	\$ 0
Accrued Expenses	0
Accounts Payable - Other	0
Total Liabilities	\$ 0
 <b>Net Position Restricted for OPEB</b>	<b>\$ 2,812,124</b>

## Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2018

	2018
<b>Additions</b>	
Contributions	
Employer <sup>(1)</sup>	\$ 936,674
Nonemployer contributing entities	0
Active Employees	0
Other	0
<b>Total Contributions</b>	<b>\$ 936,674</b>
Investment Income	
Net Appreciation in Fair Value of Investments	\$ (41,459)
Interest and Dividends	42,982
Less Investment Expense	0
<b>Net Investment Income</b>	<b>\$ 1,523</b>
Other	\$ 0
<b>Total Additions</b>	<b>\$ 938,197</b>
 <b>Deductions</b>	
Benefit Payments <sup>(1)</sup>	\$ 861,674
OPEB Plan Administrative Expense	3,500
Other	0
<b>Total Deductions</b>	<b>\$ 865,174</b>
<b>Net Increase in Net Position</b>	<b>\$ 73,023</b>
 <b>Net Position Restricted for OPEB</b>	
Beginning of Year	\$ 2,739,101
End of Year	<b>\$ 2,812,124</b>

<sup>(1)</sup> Includes an adjustment for any implicit rate subsidy present in the pre-65 rates.

## SECTION C

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### **REQUIRED SUPPLEMENTARY INFORMATION**

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Southgate Retiree Health Care Plan - Municipal Employees. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

# Schedule of Changes in Net OPEB Liability and Related Ratios

## Current Reporting Period

### Fiscal Year Ended June 30, 2018

<b>A. Total OPEB Liability</b>		
1. Service cost	\$	651,218
2. Interest on the Total OPEB Liability		1,283,324
3. Changes of benefit terms		0
4. Difference between expected and actual experience of the Total OPEB Liability		(5,151,351)
5. Changes of assumptions		(291,302)
6. Benefit payments, including refunds of employee contributions <sup>(1)</sup>		(861,674)
<b>7. Net change in Total OPEB Liability</b>		<u>(4,369,785)</u>
<b>8. Total OPEB Liability – Beginning</b>		<u>36,153,645</u>
<b>9. Total OPEB Liability – Ending</b>	\$	<u><u>31,783,860</u></u>
 <b>B. Plan Fiduciary Net Position</b>		
1. Contributions – employer <sup>(1)</sup>	\$	936,674
2. Contributions – nonemployer contributing entities		0
3. Contributions – employee		0
4. Net investment income		1,523
5. Benefit payments, including refunds of employee contributions <sup>(1)</sup>		(861,674)
6. OPEB plan administrative expense		(3,500)
7. Other		0
<b>8. Net change in Plan Fiduciary Net Position</b>		<u>73,023</u>
<b>9. Plan Fiduciary Net Position – Beginning</b>		<u>2,739,101</u>
<b>10. Plan Fiduciary Net Position – Ending</b>	\$	<u><u>2,812,124</u></u>
<b>C. Net OPEB Liability</b>	\$	<u><u>28,971,736</u></u>
<b>D. Plan Fiduciary Net Position as a percentage of the Total OPEB Liability</b>		8.85 %
<b>E. Covered-employee payroll<sup>(2)</sup></b>	\$	2,380,737
<b>F. Net OPEB Liability as a percentage of covered-employee payroll</b>		1,216.92 %

The benefit payments during the measurement period were determined as follows:

a. Explicit Benefit Payments	\$	790,328	(provided separately by the employer)
b. Implicit Benefit Payments		<u>71,346</u>	
c. Total Benefit Payments <sup>(1)</sup>		861,674	

<sup>(1)</sup> Includes an adjustment for any implicit rate subsidy present in the pre-65 rates.

<sup>(2)</sup> Payroll provided separately by employer.

# Schedules of Required Supplementary Information

## Schedule of Changes in Net OPEB Liability and Related Ratios Multiyear

Fiscal year ending June 30,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total OPEB Liability</b>										
Service cost	\$ 651,218	\$ 620,007								
Interest on the Total OPEB Liability	1,283,324	1,256,504								
Changes of benefit terms	0	0								
Difference between expected and actual experience	(5,151,351)	(215,429)								
Changes of assumptions	(291,302)	0								
Benefit payments, including refunds of employee contributions <sup>(1)</sup>	(861,674)	(984,952)								
<b>Net change in Total OPEB Liability</b>	<b>(4,369,785)</b>	<b>676,130</b>								
<b>Total OPEB Liability - Beginning</b>	<b>36,153,645</b>	<b>35,477,515</b>								
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 31,783,860</b>	<b>\$ 36,153,645</b>								
<b>Plan Fiduciary Net Position</b>										
Employer contributions <sup>(1)</sup>	\$ 936,674	\$ 1,059,952								
Nonemployer contributing entities contributions	0	0								
Employee contributions	0	0								
OPEB plan net investment income	1,523	14,189								
Benefit payments, including refunds of employee contributions <sup>(1)</sup>	(861,674)	(984,952)								
OPEB plan administrative expense	(3,500)	0								
Other	0	(7,375)								
<b>Net change in Plan Fiduciary Net Position</b>	<b>73,023</b>	<b>81,814</b>								
<b>Plan Fiduciary Net Position - Beginning</b>	<b>2,739,101</b>	<b>2,657,287</b>								
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 2,812,124</b>	<b>\$ 2,739,101</b>								
<b>Net OPEB liability - ending (a) - (b)</b>	<b>\$ 28,971,736</b>	<b>\$ 33,414,544</b>								
<b>Plan Fiduciary Net Position as a percentage of Total OPEB Liability</b>	<b>8.85 %</b>	<b>7.58 %</b>								
<b>Covered-employee payroll<sup>(2)</sup></b>	<b>\$ 2,380,737</b>	<b>\$ 2,387,488</b>								
<b>Net OPEB Liability as a percentage of covered-employee payroll</b>	<b>1,216.92 %</b>	<b>1,399.57 %</b>								

Notes to Schedule:

N/A

(1) Includes an adjustment for any implicit rate subsidy present in the pre-65 rates.

(2) Payroll provided separately by employer.

# Schedules of Required Supplementary Information

## Schedule of the Net OPEB Liability Multiyear

Last 10 Fiscal Years (which may be built prospectively)

FY Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as a % of Total OPEB Liability	Covered Payroll <sup>(1)</sup>	Net OPEB Liability as a % of Covered Payroll
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017	\$ 36,153,645	\$ 2,739,101	\$ 33,414,544	7.58 %	\$ 2,387,488	1,399.57 %
2018	31,783,860	2,812,124	28,971,736	8.85 %	2,380,737	1,216.92 %

<sup>(1)</sup> Payroll provided separately by employer.

# Schedule of Contributions Multiyear

## Last 10 Fiscal Years

<u>FY Ending June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution<sup>(1)</sup></u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll<sup>(2)</sup></u>	<u>Actual Contribution as a % of Covered Payroll</u>
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017	\$ 2,695,949	\$ 1,059,952	\$ 1,635,997	\$ 2,387,488	44.40 %
2018	2,694,711	936,674	1,758,037	2,380,737	39.34 %

<sup>(1)</sup> Includes an adjustment for any implicit rate subsidy present in the pre-65 rates.

<sup>(2)</sup> Payroll provided separately by employer.

# Notes to Schedule of Contributions

## Methods and Assumptions Used to Determine Contribution Amounts for the Fiscal Year Ending June 30, 2018\*:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	Market Value of Assets
Price Inflation	2.75%
Salary Increases	3.5% to 11.1%, including inflation
Investment Rate of Return	4.00%, net of OPEB plan investment expense.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014 valuation, pursuant to the experience study of the 5-year period ending 2012.
Mortality	Post-Retirement: RP-2014 Healthy Annuitant Generational Mortality Tables with blue collar adjustments and extended via cubic spline. Pre-Retirement: RP-2014 Employee Generational Mortality Tables with blue collar adjustments and extended via cubic spline. Post-Retirement Disabled: RP-2014 Disabled Mortality Tables with blue collar adjustments and extended via cubic spline. All tables are adjusted backwards to 2006 with the MP-2014 scale. A base year of 2006 is utilized with future mortality improvements assumed each year using scale MP-2015.
Health Care Trend Rates	9.0% trend for the first year, then gradually decreasing to an ultimate trend of 3.50%.
Aging factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

### Other Information:

Notes The plan is closed to those hired after July 1, 2008. These new employees will receive a Retiree Health Savings Account instead of Retiree Health and/or Dental benefits.

*\* Based on valuation assumptions used in the 2015 valuation.*

# Schedule of Investment Returns Multiyear

## Last 10 Fiscal Years

<u>FY Ending June 30,</u>	<u>Annual Return<sup>1</sup></u>
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	12.38 %
2018	0.06 %

<sup>1</sup> Annual money-weighted rate of return, net of investment expenses.

The calculation of the annual money weighted rate of return is based upon cash flow information provided by the City.

## SECTION D

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### NOTES TO FINANCIAL STATEMENTS

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Southgate Retiree Health Care Plan - Municipal Employees. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

## Single Discount Rate

A Single Discount Rate of 3.62% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 3.62%. The single discount rate is equal to the long-term municipal bond rate and is supported by the current investment policy.

## Summary of Membership Information<sup>(1)</sup>

The following table provides a summary of the number of participants in the plan:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	73
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members	<u>45</u>
Total Plan Members	118

<sup>(1)</sup> *As of the actuarial valuation date. GRS does not have membership counts as of June 30, 2018. The City of Southgate staff and auditors may decide that providing membership counts as of the valuation date is sufficient to meet GASB disclosure requirements. Alternatively, the City of Southgate may decide to update the membership counts to be as of the Plan's fiscal year end.*

## Sensitivity of Net OPEB Liability

Regarding the sensitivity of the Net OPEB Liability to changes in the Single Discount Rate, the following presents the Plan's Net OPEB Liability, calculated using a Single Discount Rate of 3.62%, as well as what the Plan's Net OPEB Liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

### Sensitivity of Net OPEB Liability to the Single Discount Rate Assumption

1% Decrease	Current Single Discount Rate Assumption	1% Increase
2.62%	3.62%	4.62%
\$ 34,410,449	\$ 28,971,736	\$ 24,658,090

Regarding the sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates, the following presents the Plan's Net OPEB Liability, calculated using the assumed trend rates as well as what the Plan's Net OPEB Liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

### Sensitivity of Net OPEB Liability to the Healthcare Cost Trend Rate Assumption

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 24,262,650	\$ 28,971,736	\$ 34,961,211

# SECTION E

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## SUMMARY OF BENEFITS

## Summary of Benefits

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, related to municipal employees, especially for additional discussions of the nature of actuarial calculations and for more information related to benefit provisions.

## SECTION F

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### DEVELOPMENT OF BASELINE CLAIMS COSTS

## Development of Baseline Claims Cost

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, related to municipal employees, especially for additional discussions of the nature of actuarial calculations and for more information related to baseline claims costs.

## **SECTION G**

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### **SUMMARY OF PARTICIPANT DATA**

## Summary of Participant Data

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, related to municipal employees, especially for additional discussions of the nature of actuarial calculations and for more information related to participant data.

## SECTION H

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### VALUATION METHODS AND ACTUARIAL ASSUMPTIONS

## Valuation Methods and Actuarial Assumptions

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, related to municipal employees, especially for additional discussions of the nature of actuarial calculations and for more information related to valuation methods and actuarial assumptions. Differences from the actuarial report are noted below:

**Investment Rate of Return**     The long-term expected rate of investment return used for GASB Statement Nos. 74 and 75 reporting purposes was 3.62%.

## Miscellaneous and Technical Assumptions

This report complements the actuarial valuation report prepared as of June 30, 2017, and information herein should be considered along with the information from that report, related to municipal employees, especially for additional discussions of the nature of actuarial calculations and for more information related to miscellaneous and technical assumptions.

### **Experience Studies**

Demographic assumptions were selected or affirmed for use in an experience study dated February 12, 2014 covering the 5-year period ending June 30, 2012. Other assumptions used were based upon general conditions discussed in a September 9, 2016 report.

The tables used to model the impact of aging on claims utilization were developed by the Society of Actuaries in 2013. The other OPEB specific assumptions (health care trend, plan elections, etc.) are reviewed during each OPEB valuation and updated as needed.

### **Roll-Forward Disclosure**

The Total OPEB Liability shown in this report is based on an actuarial valuation performed as of June 30, 2017, and a reporting date of June 30, 2018. The roll-forward procedure increases the June 30, 2017 actuarial accrued liability with normal cost and interest and decreases it with expected benefit payments.

## SECTION I

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### DISCUSSION OF THE SINGLE DISCOUNT RATE

## Discussion of the Single Discount Rate

GASB Statement No. 74 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total OPEB Liability. This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in a future year, the assumed valuation discount rate is used. In years where assets are not projected to be sufficient to meet benefit payments, the use of a municipal bond rate is required, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 3.62%; the municipal bond rate is 3.62%; and the resulting SDR is 3.62%.

Projections are not needed since both the long term rate of return and bond rate are equivalent.

**SECTION J**

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**GLOSSARY OF TERMS**

# Glossary of Terms

<b>Accrued Service</b>	Service credited under the system that was rendered before the date of the actuarial valuation.
<b>Actuarial Accrued Liability (AAL)</b>	The AAL is the difference between the actuarial present value of all benefits and the actuarial value of future normal costs. The definition comes from the fundamental equation of funding which states that the present value of all benefits is the sum of the Actuarial Accrued Liability and the present value of future normal costs. The AAL may also be referred to as "accrued liability" or "actuarial liability."
<b>Actuarial Assumptions</b>	These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (compensation increases, payroll growth, inflation and investment return) consist of an underlying real rate of return plus an assumption for a long-term average rate of inflation.
<b>Actuarial Cost Method</b>	A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of the OPEB trust benefits between future normal cost and actuarial accrued liability. The actuarial cost method may also be referred to as the actuarial funding method.
<b>Actuarial Equivalent</b>	A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.
<b>Actuarial Gain (Loss)</b>	The difference in liabilities between actual experience and expected experience during the period between two actuarial valuations is the gain (loss) on the accrued liabilities.
<b>Actuarial Present Value (APV)</b>	The amount of funds currently required to provide a payment or series of payments in the future. The present value is determined by discounting future payments at predetermined rates of interest and probabilities of payment.
<b>Actuarial Valuation</b>	The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total OPEB liability, and related actuarial present value of projected benefit payments for OPEB.
<b>Actuarial Valuation Date</b>	The date as of which an actuarial valuation is performed.

# Glossary of Terms

<b>Actuarially Determined Contribution (ADC) or Annual Required Contribution (ARC)</b>	A calculated contribution into an OPEB plan for the reporting period, most often determined based on the funding policy of the plan. Typically the Actuarially Determined Contribution has a normal cost payment and an amortization payment.
<b>Amortization Method</b>	The method used to determine the periodic amortization payment may be a level dollar amount, or a level percent of pay amount. The period will typically be expressed in years, and the method will either be “open” (meaning, reset each year) or “closed” (the number of years remaining will decline each year).
<b>Amortization Payment</b>	The amortization payment is the periodic payment required to pay off an interest-discounted amount with payments of interest and principal.
<b>Cost-of-Living Adjustments</b>	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
<b>Cost-Sharing Multiple-Employer Defined Benefit OPEB Plan (cost-sharing OPEB plan)</b>	A multiple-employer defined benefit OPEB plan in which the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides benefits through the OPEB plan.
<b>Covered-Employee Payroll</b>	The payroll of employees that are provided with benefits through the OPEB plan.
<b>Deferred Inflows and Outflows</b>	The deferred inflows and outflows of OPEB resources are amounts used under GASB Statement No. 75 in developing the annual OPEB expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions. The portion of these amounts not included in the OPEB expense should be included in the deferred inflows or outflows of resources.
<b>Discount Rate</b>	For GASB purposes, the discount rate is the single rate of return that results in the present value of all projected benefit payments to be equal to the sum of the funded and unfunded projected benefit payments, specifically: <ol style="list-style-type: none"><li>1. The benefit payments to be made while the OPEB plans’ fiduciary net position is projected to be greater than the benefit payments that are projected to be made in the period; and</li><li>2. The present value of the benefit payments not in (1) above, discounted using the municipal bond rate.</li></ol>

# Glossary of Terms

<b>Entry Age Actuarial Cost Method (EAN)</b>	The EAN is a cost method for allocating the costs of the plan between the normal cost and the accrued liability. The actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis (either level dollar or level percent of pay) over the earnings or service of the individual between entry age and assumed exit ages(s). The portion of the actuarial present value allocated to a valuation year is the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is the actuarial accrued liability. The sum of the accrued liability plus the present value of all future normal costs is the present value of all benefits.
<b>Fiduciary Net Position</b>	The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions.
<b>GASB</b>	The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.
<b>Long-Term Expected Rate of Return</b>	The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.
<b>Money-Weighted Rate of Return</b>	The money-weighted rate of return is a method of calculating the returns that adjusts for the changing amounts actually invested. For purposes of GASB Statement No. 74, the money-weighted rate of return is calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense.
<b>Multiple-Employer Defined Benefit OPEB Plan</b>	A multiple-employer plan is a defined benefit OPEB plan that is used to provide OPEB payments to the employees of more than one employer.
<b>Municipal Bond Rate</b>	The Municipal Bond Rate is the discount rate to be used for those benefit payments that occur after the assets of the trust have been depleted.
<b>Net OPEB Liability (NOL)</b>	The NOL is the liability of employers and non-employer contributing entities to plan members for benefits provided through a defined benefit OPEB plan.
<b>Non-Employer Contributing Entities</b>	Non-employer contributing entities are entities that make contributions to an OPEB plan that is used to provide OPEB payments to the employees of other entities. For purposes of the GASB accounting statements, plan members are not considered non-employer contributing entities.

# Glossary of Terms

<b>Normal Cost</b>	The portion of the actuarial present value allocated to a valuation year is called the normal cost. For purposes of application to the requirements of this Statement, the term normal cost is the equivalent of service cost.
<b>Other Postemployment Benefits (OPEB)</b>	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits regardless of the manner in which they are provided. Other post-employment benefits do not include termination benefits.
<b>Real Rate of Return</b>	The real rate of return is the rate of return on an investment after adjustment to eliminate inflation.
<b>Service Cost</b>	The service cost is the portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
<b>Total OPEB Expense</b>	The total OPEB expense is the sum of the following items that are recognized at the end of the employer's fiscal year: <ol style="list-style-type: none"><li>1. Service Cost</li><li>2. Interest on the Total OPEB Liability</li><li>3. Current-Period Benefit Changes</li><li>4. Employee Contributions (made negative for addition here)</li><li>5. Projected Earnings on Plan Investments (made negative for addition here)</li><li>6. OPEB Plan Administrative Expense</li><li>7. Other Changes in Plan Fiduciary Net Position</li><li>8. Recognition of Outflow (Inflow) of Resources due to Liabilities</li><li>9. Recognition of Outflow (Inflow) of Resources due to Assets</li></ol>
<b>Total OPEB Liability (TOL)</b>	The TOL is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service.
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	The UAAL is the difference between actuarial accrued liability and valuation assets.
<b>Valuation Assets</b>	The valuation assets are the assets used in determining the unfunded liability of the plan. For purposes of GASB Statement Nos. 74 and 75, the valuation assets are equal to the market value of assets.