



**GASB Statements No. 43 and No. 45  
Washtenaw County Road Commission**

**as of December 31, 2014**

Report Prepared September 8, 2015

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# Washtenaw County Road Commission

## GASB Statements No. 43 and No. 45

### Table of Contents

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	Page
<b>Section 1:</b> Actuarial Certification	1
<b>Section 2:</b> <b>GASB 45 Financial Statement Information</b>	
Annual Required Contribution	2
Annual OPEB Cost	3
Funded Status	4
Schedule of Funding Progress	5
Projected Retiree Benefit Payments	6
<b>Section 3:</b> Plan Provisions and Participant Data	7
Actuarial Methods and Assumptions	9
<b>Section 4:</b> Definitions	13



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Actuarial Certification

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I, Frank T. Vedegys, am a consulting actuary associated with the firm CBIZ Benefits & Insurance Services, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards to provide statements of actuarial opinion for OPEB valuations. I have completed an actuarial valuation of the medical, pharmacy, dental, and life insurance benefits for the Washtenaw County Road Commission as of December 31, 2014. This report contains the results of the valuation.

To the best of my knowledge, the information supplied in this report is complete and accurate. In my opinion, the methods and assumptions used in the valuation comply with the Governmental Accounting Standards Board Statement 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The assumptions are related reasonably to the past experience of the Plan, and they represent my best estimate of anticipated experience under the Plan. Nevertheless, the actual costs of the plan in the future will differ from the results of the valuation, as the emerging experience varies from the assumptions projected in the valuation.

I have relied on the Washtenaw County Road Commission for the accuracy and completeness of the benefit plans, premium rates, contributions, and the employee census. While I have not audited the data, I have reviewed it for reasonableness and consistency. A summary of my understanding of the plan features is provided in this report.

This report has been prepared for the use and benefit of WCRC in assessing the effect of GASB Statement No. 45 on accounting for post-employment benefits other than pensions. It should not be relied upon for other purposes, and it is not intended to benefit any other party. It may be shared in its entirety with all auditors and the general public.

Neither CBIZ nor any of the employees working on this engagement has any relationship with the Washtenaw County Road Commission that may impair, or appear to impair, the independence and objectivity of our work.

This actuarial valuation was prepared in accordance with the applicable Statements of the Governmental Accounting Standards Board and the Actuarial Standards of Practice issued by the American Academy of Actuaries.

Frank T. Vedegys, FSA, MAAA

9/8/2015

Date





## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Annual Required Contributions

The Washtenaw County Road Commission can contribute the Annual Required Contribution (ARC), an amount actuarially determined according to the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the Normal Cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC will be used by the auditor to construct a historical Schedule of Employer Contributions for WCRC's financial statement notes. Although there is no requirement to actually contribute the ARC or any other amount, the auditor and/or rating agencies will consider WCRC's plan of action to address the unfunded liabilities when assessing the overall creditworthiness of WCRC.

#### Contributions for Fiscal Year Ending December 31, 2015

<u>Normal Cost Component</u>	<u>AFSCME</u>	<u>Non-Union</u>	<u>Teamsters</u>	<u>Total</u>
Normal Cost	\$13,482	\$40,068	\$83,333	<b>\$136,883</b>
Interest	1,079	3,205	6,667	<b>10,951</b>
Total Normal Cost	<u>\$14,561</u>	<u>\$43,273</u>	<u>\$90,000</u>	<b>\$147,834</b>
<u>Amortization Component</u>				
Actuarial Accrued Liability	\$2,865,769	\$10,727,119	\$13,327,530	<b>\$26,920,418</b>
Less Assets	807,975	3,024,405	3,757,565	<b>7,589,946</b>
Unfunded Actuarial Accrued Liability	<u>\$2,057,794</u>	<u>\$7,702,714</u>	<u>\$9,569,965</u>	<b>\$19,330,472</b>
Amortization Factor	10.60354	10.60354	10.60354	<b>10.60354</b>
Amortization Payment	<u>\$194,067</u>	<u>\$726,429</u>	<u>\$902,525</u>	<b>\$1,823,021</b>
Interest on Amortization Payment	\$15,525	\$58,114	\$72,202	<b>\$145,842</b>
Total Amortization Payment	<u>\$209,592</u>	<u>\$784,543</u>	<u>\$974,727</u>	<b>\$1,968,862</b>
Annual Required Contribution	<u>\$224,153</u>	<u>\$827,816</u>	<u>\$1,064,727</u>	<b>\$2,116,696</b>



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Annual OPEB Cost

The Washtenaw County Road Commission's Net Other Post Employment Benefit Obligation is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined according to the parameters of GASB Statement 45. The following table shows the components of WCRC's Annual OPEB Expense for the year, the benefit payments and employer contributions to the plan, and changes in WCRC's Net OPEB Obligation to the Employee Benefit Plan.

#### ANNUAL OPEB COST AND NET OPEB OBLIGATION

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
1. Net OPEB Obligation as of beginning of year	\$2,317,728	\$1,921,859	\$1,333,962
2. Annual Required Contribution	2,116,696	2,116,696	2,725,538
3. Interest on Net OPEB Obligation to end of year	185,418	153,749	106,717
4. Adjustment to Annual Required Contribution	(236,067)	(195,747)	(123,737)
5. Annual OPEB Expense : 2 + 3 + 4	<u>\$2,066,047</u>	<u>\$2,074,698</u>	<u>\$2,708,518</u>
6. Benefit Payments*	(1,763,025)	(1,678,829)	(1,520,621)
7. Contributions to Irrevocable Trust*	<u>0</u>	<u>0</u>	<u>(600,000)</u>
8. Change in Net OPEB Obligation : 5 - 6 - 7	\$303,022	\$395,869	\$587,897
9. Net OPEB Obligation at end of year	<u><b>\$2,620,750</b></u>	<u><b>\$2,317,728</b></u>	<u><b>\$1,921,859</b></u>

\*12/31/2016 and 12/31/2015 amounts are estimated. TBD at Fiscal Year End

#### Annual OPEB Expense, % of Annual OPEB Expense contributed to the Employee Benefit

<u>Fiscal Year Ended</u>	<u>Annual OPEB Expense</u>	<u>Annual OPEB Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2016	\$2,066,047	\$1,763,025	85.33%	\$2,620,750
12/31/2015	2,074,698	1,678,829	80.92%	2,317,728
12/31/2014	2,708,518	2,120,621	78.29%	1,921,859
12/31/2013	2,717,878	2,057,631	75.71%	1,333,962
12/31/2012	2,000,784	1,797,457	89.84%	673,715
12/31/2011	1,881,955	1,719,089	91.35%	470,388
12/31/2010	1,868,502	1,823,536	97.59%	307,522
12/31/2009	1,761,559	1,760,549	99.94%	262,556
12/31/2008	1,570,073	1,461,808	93.10%	261,546
12/31/2007	1,490,728	1,337,447	89.72%	153,281





## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### **Funded Status**

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Actuarial valuations involve estimates of the value of reported amounts, as well as assumptions about the probability of events in the future. The valuation is based on the substantive plan as of the valuation date. The funded status of the plan and the Annual Required Contributions are subject to continual revision as actual results tabulated at the end of the year are compared to past expectations, and as new projections are made about the future.

1. Present Value of Benefits as of December 31, 2014	\$27,904,979
2. Actuarial Accrued Liability as of December 31, 2014	\$26,920,418
3. Actuarial Value of Plan Assets as of December 31, 2014	7,589,946
4. Unfunded Actuarial Accrued Liability	<u>\$19,330,472</u>
funding shortfall or (excess) : (2) - (3)	
5. Funded Ratio : (3) / (2)	28.19%
6. 2015 Annual OPEB Expense	\$2,074,698



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Schedule of Funding Progress

The required schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

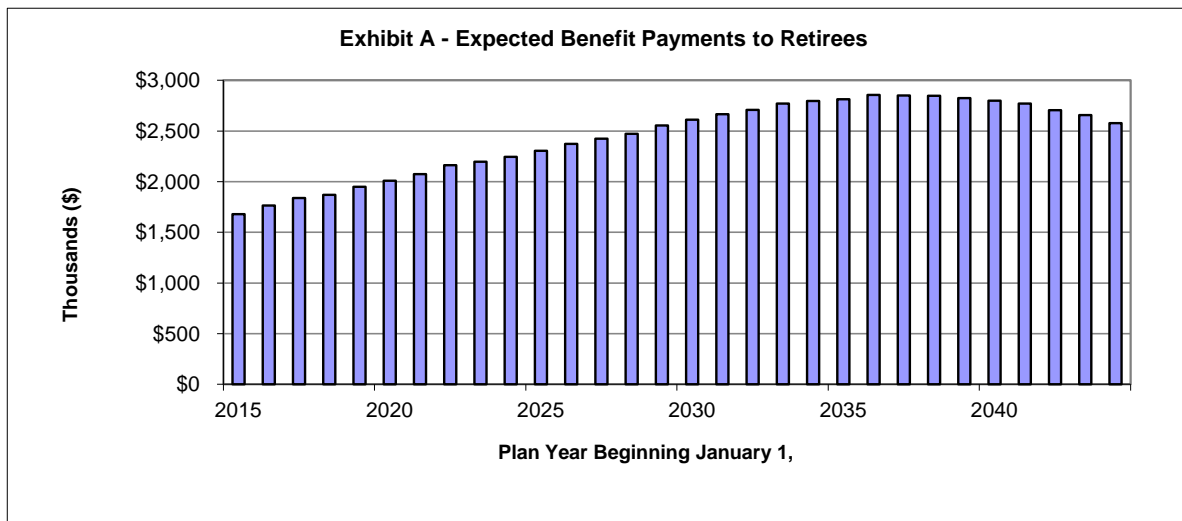
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as Percent of Payroll (b - a) / c
December 31, 2014	\$7,589,946	\$26,920,418	\$19,330,472	28.2%	\$4,933,750	391.8%
December 31, 2012	\$5,200,785	\$32,313,834	\$27,113,049	16.1%	\$5,775,392	469.5%
December 31, 2010	\$3,779,084	\$28,469,954	\$24,690,870	13.3%	\$6,057,949	407.6%
December 31, 2008	\$1,729,732	\$25,209,139	\$23,479,407	6.9%	\$7,459,083	314.8%
December 31, 2006	\$852,110	\$21,116,123	\$20,264,013	4.0%	\$7,725,580	262.3%



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Projected Retiree Benefit Payments

Exhibit A is a graph that shows the projection of expected benefit payments under the OPEB plan. These payments only reflect those participants who have already been hired or who are retired. Expected benefit payments are equal to the number of retirees each year times the per retiree cost to the employer, and it includes the implicit liability. The first year's projected benefit payments total \$1,678,829. As the last participants retire and then reach the end of their benefit period, the benefit payments decline and eventually would reach zero. Exhibit B is a table showing the first 10 years of expected benefit payments.



### Exhibit B: First 10 Years of Expected Benefit Payments

Plan Year Beginning January 1,	Total
2015	\$1,678,829
2016	\$1,763,025
2017	\$1,839,307
2018	\$1,870,294
2019	\$1,948,123
2020	\$2,009,808
2021	\$2,075,482
2022	\$2,162,560
2023	\$2,195,425
2024	\$2,245,430





## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Plan Provisions and Participant Data

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<b>Retiree Benefits and Eligibility</b>	<p>Medical, prescription drug, dental, and \$7,500 Life Insurance benefits provided by the Road Commission for members hired prior to January 1, 2012.</p> <p><u>Normal Retirement</u>          Age 60 with 8 years of service          Age 55 with 25 years of service</p> <p><u>Non-Duty and Duty Disability</u>          8 years of service</p> <p><u>Non-Duty and Duty Death-in-Service</u>          8 years of service</p>				
<b>Length of Benefits</b>	<p><i>Retiree</i> : Lifetime  <i>Spouse</i> : Lifetime  <i>Surviving Spouse</i> : Lifetime  <i>Disability and Death -in-Service</i> : 36 months</p>				
<b>Retiree Contributions</b>	<p><u>Medical Benefits</u>  <i>Retired before January 1, 2010</i>          None</p> <p><i>Retired on or after January 1, 2010</i>          Illustrative premium in excess of the hard caps of Public Act 152 plus an amount equal to the illustrative premium minus 5% for each year of</p> <p><u>Dental Benefits</u>          Illustrative premium in excess of the \$500 annual stipend provided by the Commission.</p> <p><u>Life Insurance Benefits</u>          None</p>				
<b>Opt-Out Condition</b>	<p>Retirees may opt out of Retiree Health Care Benefits on an annual basis and receive \$1,400 per year. These cash benefits are not valued for purposes of GASB 45.</p>				
<b>2015 PA 152 Hard Cap</b>	<table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: center;"><u>Single Person</u></td> <td style="text-align: center;"><u>Two Person</u></td> </tr> <tr> <td style="text-align: center;">\$ 5,992.30</td> <td style="text-align: center;">\$ 12,531.75</td> </tr> </table>	<u>Single Person</u>	<u>Two Person</u>	\$ 5,992.30	\$ 12,531.75
<u>Single Person</u>	<u>Two Person</u>				
\$ 5,992.30	\$ 12,531.75				



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Plan Provisions and Participant Data

Annual Medical/Rx  
Premium Equivalent  
Rates

Plan Suffix	Single Person		Two Person	
	Pre-65	Post-65	Pre-65	Post-65
901	\$8,283	\$8,068	\$19,880	\$16,135
902	\$7,863	\$8,581	\$18,870	\$17,162
905	\$6,981	\$7,471	\$16,755	\$14,942
906	\$6,792	\$6,922	\$16,300	\$13,844
907	\$6,981	\$7,471	\$16,755	\$14,942
908	\$8,635	\$9,089	\$20,725	\$18,177
910	\$8,635	\$9,089	\$20,725	\$18,177
912	\$6,981	\$7,471	\$16,755	\$14,942
913	\$7,863	\$8,581	\$18,870	\$17,162
914	\$5,558	\$6,931	\$13,339	\$13,862
915	\$5,785	\$6,931	\$13,884	\$13,862

### Census Information

Division	Actives			Inactives and Spouses	
	Count	Average Age	Average Service	Count	Average Age
AFSCME	9	50.0	16.9	22	62.3
Non-Union	28	45.9	15.7	84	69.0
Teamsters	53	45.0	13.3	88	68.5
Total	90	45.8	14.4	194	68.0



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Actuarial Methods and Assumptions

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<b>Discount Rate</b>	8.00%
<b>Inflation Rate</b>	2.50%
<b>Actuarial Cost Method</b>	Individual Entry-Age Normal - Level Dollar
<b>Amortization Method</b>	Level Dollar over a closed 22 year period. Amortization payments are assumed to be made continuously.
<b>Funding Policy</b>	The Commission's policy is to fund the full Annual Required Contribution.
<b>Actuarial Value of Assets</b>	Market Value
<b>Affordable Care Act</b>	Excise taxes on Cadillac plan benefits, if any, were not included in this valuation. Other legislative changes related to the Affordable Care Act were included in the valuation to the extent they have already been implemented in the plan.

**Annual Per-Capita  
Medical/Rx Claims Cost**

Plan Suffix	Age 60 Sample Pre-65 Rate	Age 75 Sample Post-65 Rate
901	\$9,245	\$6,983
902	\$8,445	\$6,547
905	\$7,607	\$6,091
906	\$7,607	\$6,091
907	\$7,607	\$6,091
908	\$9,245	\$6,983
910	\$9,245	\$6,983
912	\$7,607	\$6,091
913	\$8,445	\$6,547
914*	\$6,330	\$5,396
915*	\$6,565	\$5,523

Per capita claims costs are based on enrollment and paid medical and prescription drug claims for retirees paid from January 1, 2013 through December 31, 2014. Medical and prescription drug claims are projected to the 2015 plan year separately, assuming a medical trend rate of 7.5% per annum and drug trend rate of 8.6% per annum based on the most recent Segal survey. The projected 2013 claims are weighted 40% and the projected 2014 claims are weighted 60%. Pre-Medicare and Medicare-eligible medical costs are developed separately.

\*Only plans open to future retirees. It is assumed that 70% of future retirees will elect plan 915, while 30% will elect plan 914.



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Actuarial Methods and Assumptions

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<b>Monthly Fixed Costs per Subscriber</b>	Administration:	\$54.85
	Aggregate Stop Loss Premium:	\$10.20
	Specific Stop Loss Premium:	\$233.35

Aggregate Stop Loss attachment point is 120% of expected costs.  
Specific Stop Loss attachment point is \$35,000.

#### Annual Healthcare Trend

Years after Valuation	Medical/Rx	Dental
1	8.00%	5.00%
2	7.50%	5.00%
3	7.00%	5.00%
4	6.50%	5.00%
5	6.00%	5.00%
6	5.50%	5.00%
7	5.00%	5.00%
8+	4.50%	5.00%

Medical trend applies to the per-capita claims costs, fixed costs, and premium equivalent rates charged to participants. The hard caps of Public Act 152 are assumed to increase 3.5% annually.

#### Morbidity Factors

Age	Rate per Age
Under 65	4.0%
65 - 69	3.0%
70 - 74	2.5%
75 - 85	2.0%
86 and Older	0.0%

#### Election Rates

*Future Retirees:*

100% of future retirees are assumed to elect coverage at retirement.

*Current Retirees:* Based on current coverage election. It is assumed no one will opt-in or opt-out of coverage once initial retirement election is made.

#### Spousal Election Rates

*Future Retirees:* 70% of future retirees are assumed to be married at retirement. 100% of married participants at retirement will elect to cover their spouse.

*Current Retirees and Spouses:* Based on current coverage election





## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Actuarial Methods and Assumptions

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**Spouse Age** Male spouses are assumed to be 3 years older, and female spouses are assumed to be 3 years younger. Actual age is used for spouses of current retirees, if provided.

**Mortality Rates** *Healthy:*  
50% Male-50% Female blend of the 1994 Group Annuity Mortality Table  
*Disabled:*  
Healthy Mortality Table set forward 10 years  
There is no margin for future mortality improvements explicitly incorporated in this valuation.

**Turnover Rates** MERS withdrawal assumption with scaling factor 0.80 used for the 12/31/2014 pension valuation

Service	Rate	Service	Rate
0	16.00%	10	4.00%
1	13.60%	15	2.96%
2	11.20%	20	2.40%
3	8.80%	25	2.16%
4	7.20%	30	2.08%
5	5.20%	34+	1.92%

**Disability Rates** MERS disability assumption used for the 12/31/2014 pension valuation

Age	Rate	Age	Rate
20	0.02%	45	0.11%
25	0.02%	50	0.24%
30	0.02%	55	0.60%
35	0.06%	60	0.60%
40	0.06%	65	0.60%



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Actuarial Methods and Assumptions

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#### Retirement Rates

The service based retirement table used in this valuation is consistent with MERS retirement rates used in the 12/31/2014 pension valuation, which are based on retirement income replacement. The service based rates in this valuation used were:

Service	Rate	Service	Rate
1	3%	23 to 26	22%
2	5%	27 to 28	24%
3	9%	29	25%
4	11%	30	26%
5	13%	31	29%
6	16%	32	31%
7	18%	33	33%
8	19%	34	36%
9	19%	35	40%
10 to 20	20%	36 or more	42%
21 to 22	21%		

**100% Retirement at Age 70**



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Definitions

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Actuarial Accrued Liability (AAL)	The portion of the Actuarial Present Value of Benefits allocated to past service based on the selected Actuarial Cost Method. In effect, this is the part of the future benefit that the employee has already “earned.”
Actuarial Cost Method	The method that is used to spread the value of benefits expected to be paid in the future over the years of employment remaining until the employee is fully eligible to receive benefits.
Actuarial Present Value of Benefits	The estimated value of projected benefits payable to plan members in the future, discounted back to the valuation date to reflect the time value of money.
Annual OPEB Expense	The amount recognized in the employer’s financial statement each accounting period for its contributions to an OPEB plan, on the accrual basis of accounting.
Annual Required Contribution (ARC)	The Normal Cost plus the part of the Unfunded Actuarial Accrued Liability that is amortized that year.
Discount Rate	The interest rate used to reflect the time value of money. The discount rate should reflect the long-term rate of return the employer expects to earn on the assets backing the OPEB liability. In the absence of OPEB assets, the discount rate should reflect the long-term rate of return the employer expects to earn on assets in its general fund.
Employers Contributions	Contributions made in relation to the ARC. An employer has made a contribution if it has paid benefits directly to or on behalf of a retiree, made premium payments to an insurer, or irrevocably transferred assets to a dedicated trust which provides benefits to retirees.
Fair Value of Assets	The market value of the assets in the trust as of the valuation date.
Full Eligibility Date	The date that the employee has satisfied all of the requirements to receive full benefits under the plan.
Healthcare Cost Trend Rates	Annual change in per capita plan costs due to factors such as health care inflation, utilization of services, and technological advances.
Market Related Value of Assets	The value of assets determined by using the asset valuation method that is used to calculate the expense.



## Washtenaw County Road Commission GASB Statements No. 43 and No. 45

### Definitions

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Net Other Post Employment Benefit Obligation	The accumulated value of the employer’s contributions in excess of (less than) the annual OPEB Cost (expense).
Normal or Service Cost	The present value of benefits earned during the plan year, which is part of the annual expense.
Per Capita Plan Costs	The average cost of providing health care benefits covered by the plan to a participant after adjusting for administrative costs, Medicare reimbursements, deductibles, coinsurance, and co-payments.
Post-Employment Benefit Plan	An arrangement between an employer and its employees, whereby an employer agrees to provide benefits after the employee retires in exchange for services. A plan may be written or implied by a well-defined practice of paying post-employment benefits or from oral representations made to current or former employees. In some situations, the “substantive plan” used to determine the expense might differ from the written plan.
Valuation Date	The date that the assets and liabilities are measured.