



nyhart

St. Clair County Employees' Post-Employment Benefits Plan

MANAGEMENT SUMMARY

December 31, 2019 GASB 74 Actuarial Valuation

September 22, 2020



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Highlights

Positive Claims Experience

- Favorable health plan experience since last valuation is reflected for pre-Medicare benefits effective on January 1, 2020. Post-Medicare premiums reduced slightly effective January 1, 2020.

Investment Rate of Return Decrease

- HCT fund manager lowered 30-year real return expectations from 4.34% to 3.79%. Inflation was also reduced from 2.00% to 1.00%.

Trust Lifespan

- Health Care Trust assets still expected to last greater than 30 years, with a slightly longer/improved outlook compared to last year. Improved outlook is a function of investment income being higher than expected in 2019

Experience Study

- December 2019 experience study assumption changes resulted in \$2.4M liability increase. Contribution recommendations for this year are based on these assumption updates



OPEB Liability Reconciliation

CY 2019	
Total OPEB Liability (TOL) as of 12/31/2018 (6.34% discount rate) – <i>includes Experience Study Changes</i>	\$ 82,155,620
Normal cost for CY 2019	1,183,103
Interest adjustment for CY 2019	5,156,277
Benefit payments for CY 2019	(4,081,577)
Expected TOL as of 12/31/2019	\$ 84,413,423
Differences between expected and actual experience	(937,208)
TOL as of 12/31/2019 before assumption changes	\$ 83,476,215
Changes in assumptions	1,052,833
Final TOL as of 12/31/2019 with assumption changes (6.00% discount rate)	\$ 84,529,048

ACTUARY'S COMMENTS

- Differences between expected and actual experience include any deviation on demographic experience (turnover, retirement, death) and health care costs (premium rates and actual pay-go).
- The proposed assumption changes made in this year's valuations are:
 - Reducing the investment rate of return from 6.34% to 6.00%. This change caused an increase in liabilities.
 - Reset health care cost increases for pre-65 retirees to an initial rate of 8.0% decreasing by 0.5% annually to an ultimate rate of 4.5% and change health care cost increases for post-65 retirees to an initial rate of 7.0% decreasing by 0.5% annually to an ultimate rate of 4.0%. This change caused a decrease in liabilities.
 - Updated mortality scale from MP-2018 to MP-2019, which caused a slight decrease in liabilities.



Premium Rates Summary

Medical / Rx	Eff. 1/1/2019	Expected 1/1/2020**	Eff. 1/1/2020 (County Adopted Budget Rates)	Eff. 1/1/2020 (Premium Equivalent Rates)
Non-Hardship* Pre-Medicare Retiree Rates				
Single	\$531.46	\$573.98	\$615.65	\$563.97
2-Person	\$1,275.50	\$1,377.54	\$1,477.55	\$1,352.30
Non-Hardship* Medicare Retiree Rates				
Single	\$163.09	\$159.68	\$161.51	\$161.51
2-Person	\$326.18	\$319.36	\$323.02	\$323.02

* The County has separate Hardship plans that have the same medical provisions as Non-Hardship plans but with better prescription drug benefits. Effective 1/1/2013, Hardship Retirees are defined as any participants with annual household income of \$24,999 or less and have at least 20 years of service at retirement. Annual household income means any and all income (taxable or not) received by a retired member and/or their spouse residing in the same household.

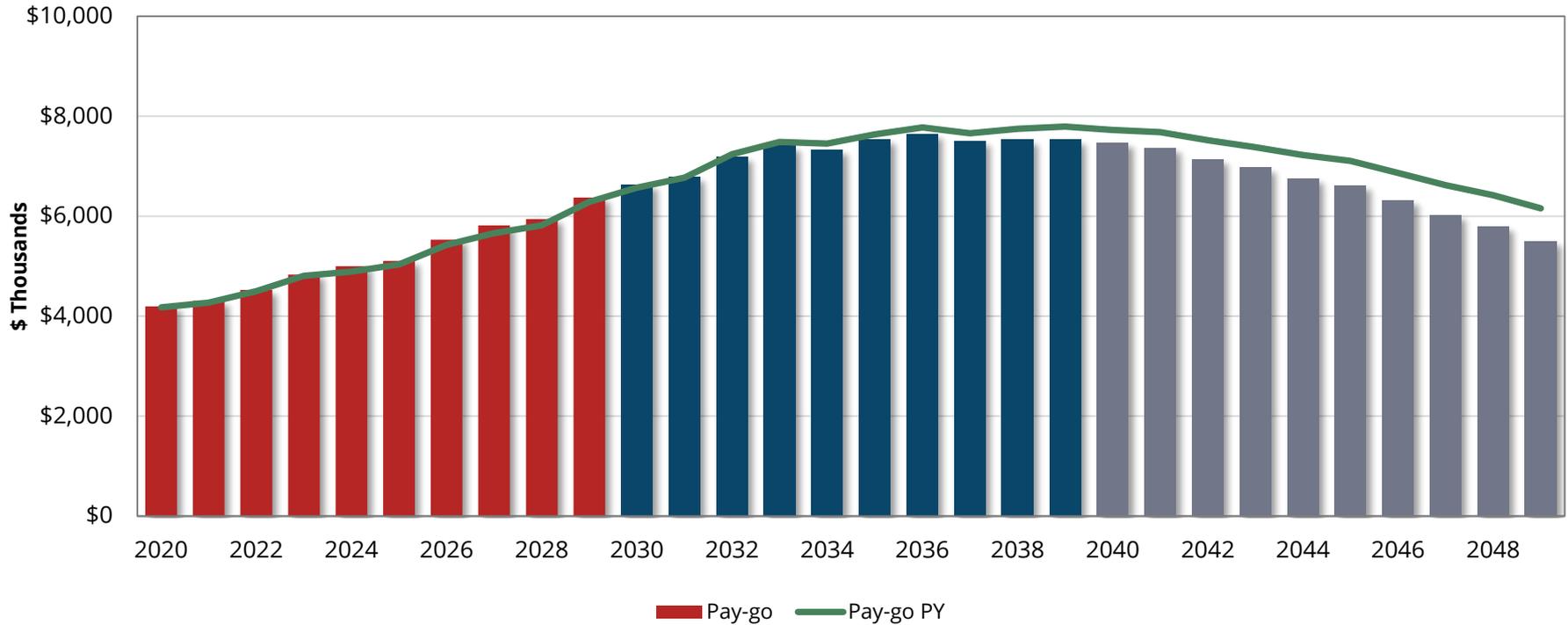
** Expected 1/1/2020 premium rates for pre-Medicare retirees are assumed to be 8.0% higher than 2019 and 2.09% lower for Medicare retirees.

The above rates are applicable to all locations (County, Mental Health, and Road Commission).

Premium equivalent rates determined by the County's healthcare consultants are used for determining the per capita cost assumption.



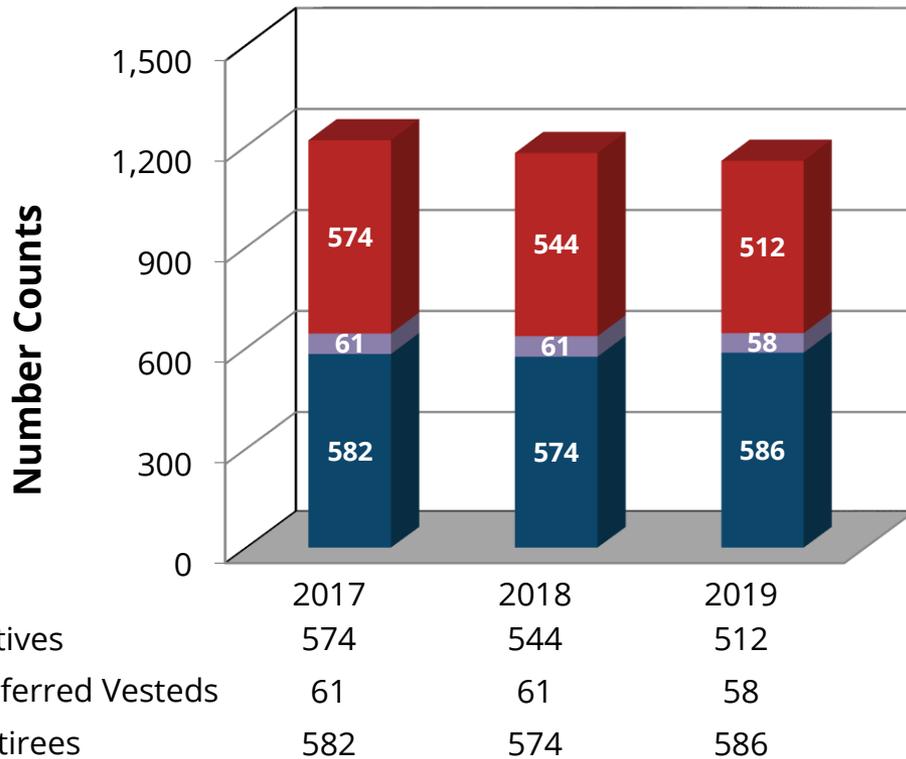
Projected Pay-go Costs



<i>In thousands</i>	2020	2025	2030	2035	2040	2045	2050
Current year	\$4,196	\$5,107	\$6,629	\$7,547	\$7,471	\$6,612	\$5,079
Prior year	\$4,175	\$5,038	\$6,568	\$7,638	\$7,728	\$7,106	\$5,766



Participant Information



As of 12/31/2017	
Average Active Age	49.1
Average Service	15.2
Average Plan Compensation	\$ 57,038

As of 12/31/2018	
Average Active Age	49.8
Average Service	15.9
Average Plan Compensation	\$ 58,404

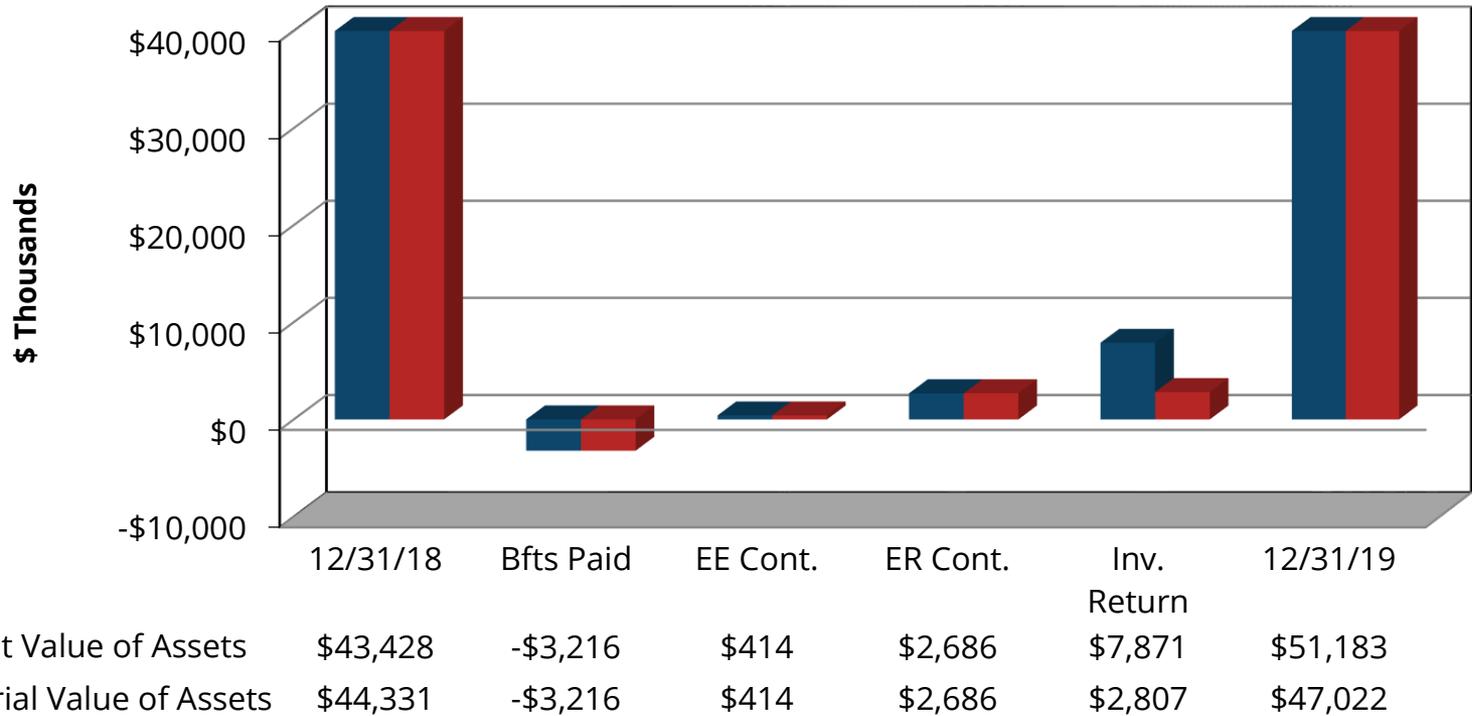
As of 12/31/2019	
Average Active Age	50.3
Average Service	16.7
Average Plan Compensation	\$ 61,499

ACTUARY'S COMMENTS

- Since the plan is closed, the total number of participants (actives, deferred vested, and retirees) is expected to decline very gradually in the future.
- Proportion of retirees as a % of total participants will continue to increase for several years in the future as the number of employees retiring are expected to be more than the number of retirees who passed away. There were 16 total retirements and 6 term vested in 2019.



2019 Asset Reconciliation

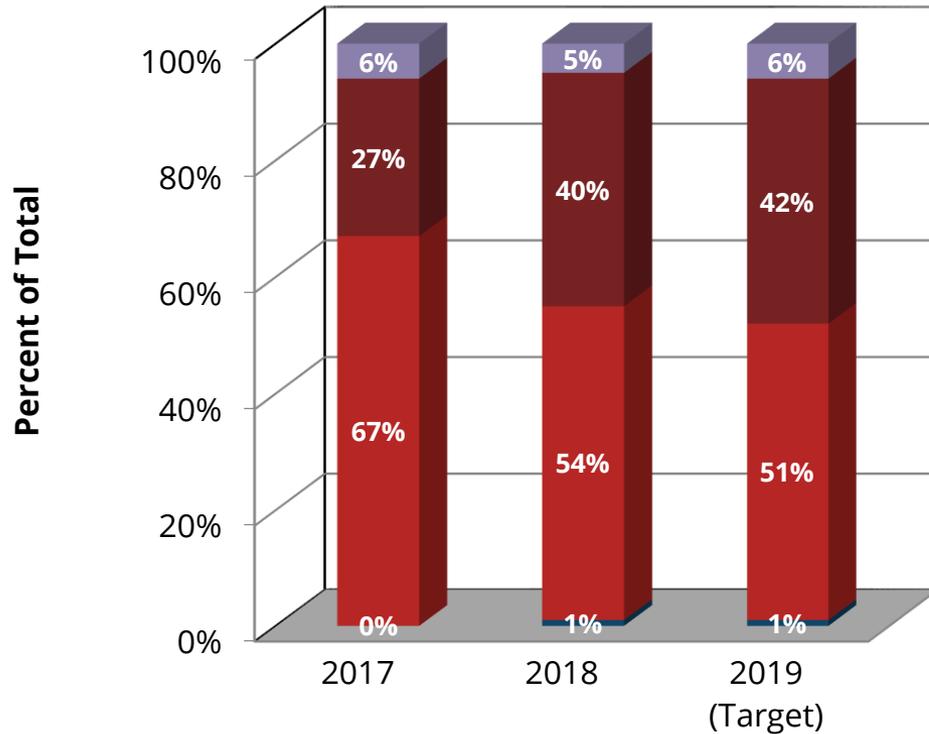


ACTUARY'S COMMENTS

- Actuarial Value of Asset is used to determine the funding requirement of the plan where asset gains and losses are being realized gradually over five years. While this "smoothing" approach will not reduce long-term costs, it will change the timing at which the costs are accounted for. The theoretical rationale for this approach is that gains and losses will offset one another before they must be paid.



Asset Class Allocation



Asset Class	2017	2018	2019 (Target)
Cash/Money Market	6%	5%	6%
Fixed income	27%	40%	42%
Equities	67%	54%	51%
Other	0%	1%	1%

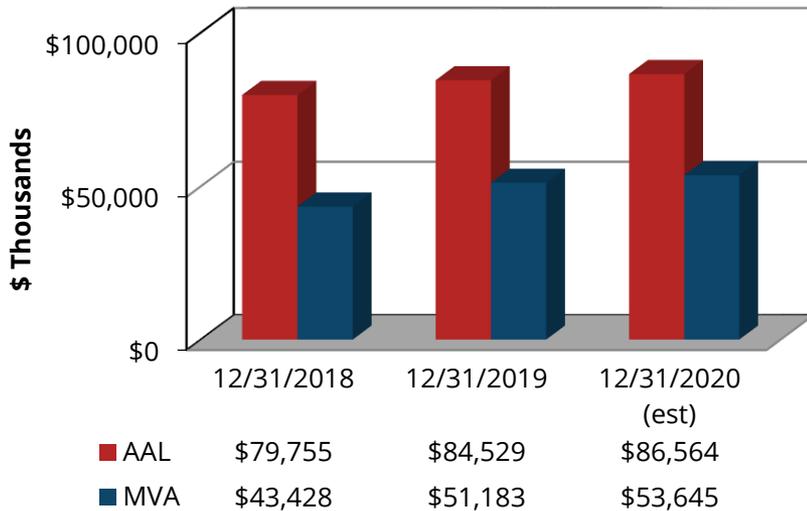
ACTUARY'S COMMENTS

- The target plan asset mix should be considered when setting the expected investment return assumption used in determining the contribution requirements.
- The current target for plan assets as of 12/31/2019 is relatively stable compared to the 2018 asset class allocation.

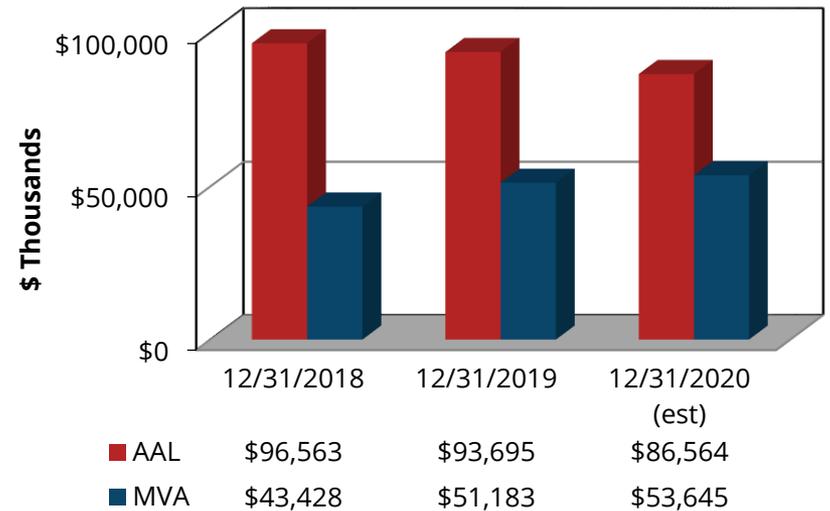


Funded Status (Funding vs Accounting)

FUNDING



ACCOUNTING



		12/31/2018	12/31/2019	12/31/2020 (projected)*
Funding	Funded %	54.5%	60.6%	62.0%
	Unfunded AAL	\$36,327	\$33,346	\$32,919
	Discount Rate	6.34%	6.00%	6.00%
Accounting	Funded %	45.0%	54.6%	62.0%
	Unfunded AAL	\$53,135	\$42,512	\$32,919
	Discount Rate	5.2%	5.5%	6.0%

ACTUARY'S COMMENTS

- Under GASB 75, a blended discount rate must be used if the HCT is projected to be depleted at some point in the future. This approach uses MVA. Last year, HCT assets were not projected to grow to \$51M until 2025. The increase in Trust assets using MVA allows for use of the investment rate of return for discount rate purposes. However, 2020 performance will be considered as well as the municipal bond rate at 12/31/20.



Funded Status (By Group)

Funding Valuation (Discount rate = 6.00%)					
Funded Status at 12/31/2019	Total	County	Mental Health	Road Commission	
Actuarial Liability (AAL)	\$ 87,982,511	\$ 58,819,263	\$ 15,765,487	\$ 13,397,761	
Smoothed value of assets (AVA)	(47,021,738)	(24,355,129)	(18,974,674)	(3,691,935)	
Unfunded AAL	\$ 40,960,773	\$ 34,464,134	\$ (3,209,187)	\$ 9,705,826	
Funded Ratio	53.0%	41.1%	118.3%	27.6%	

GASB 74 / 75 (Discount rate = 5.5%)					
Funded Status at 12/31/2019	Total	County	Mental Health	Road Commission	
Total OPEB Liability (TOL)	\$ 93,695,028	\$ 62,657,744	\$ 16,875,556	\$ 14,161,728	
Plan fiduciary net position*	(51,183,055)	(26,582,772)	(20,637,769)	(3,962,514)	
Net OPEB Liability (NOL)	\$ 42,511,973	\$ 36,074,972	\$ (3,762,213)	\$ 10,199,214	
Funded Ratio	54.6%	42.4%	122.3%	28.0%	

* Based on market value of assets.

Actuarially Determined Contribution (ADC)

(in thousands)



Total

Funded Status at End of Year	1/1/2019	1/1/2020	1/1/2021 ¹
Actuarial Liability (AAL)	\$ 79,755	\$ 84,529	\$ 86,564
Smoothed value of assets (AVA)	(44,331)	(47,022)	(49,040)
Unfunded AAL	\$ 35,424	\$ 37,507	\$ 37,524
Funded Ratio	55.6%	55.6%	56.7%

Fiscal Year ADC	2019	2020	2021 ¹
ADC ²	\$ 5,676	\$ 6,081	\$ 6,218
Covered payroll ³	\$ 31,772	\$ 31,488	\$ 29,870
ADC as % of payroll	17.9%	19.3%	20.8%
Projected benefit payments	\$ 4,043	\$ 4,195	\$ 4,308

As of 12/31/2018		
Actives		544
Retirees / Survivors		574
Terminated Vested ⁴		61
Total		1,179

As of 12/31/2019		
Actives		512
Retirees / Survivors		586
Terminated Vested ⁴		58
Total		1,156

Funded Status shown above is based on a 6.34% discount rate for 2019 and a 6.00% discount rate for FYE 2020 and 2021 (funding assumption), which is amortized and included as a component of the Actuarially Determined Contribution (ADC). FYE 2020 and 2021 contributions include the impact of the experience study updates described on page 2.

¹ Projected on a “no gain/loss” basis from 12/31/2019 valuation.

² Includes normal cost (reduced for estimated employee contributions) and amortization of unfunded AAL.

³ FY 2021 covered payroll is projected from FY 2020 and takes into account anticipated terminations and retirements.

⁴ Including those eligible for retiree health benefits only.

Actuarially Determined Contribution (ADC)

(in thousands)



County

Funded Status at End of Year	1/1/2019	1/1/2020	1/1/2021 ¹
Actuarial Liability (AAL)	\$ 52,403	\$ 56,515	\$ 57,909
Smoothed value of assets (AVA)	(23,811)	(24,355)	(24,544)
Unfunded AAL	\$ 28,592	\$ 32,160	\$ 33,365
Funded Ratio	45.4%	43.1%	42.4%

Fiscal Year ADC	2019	2020	2021 ¹
ADC ²	\$ 4,206	\$ 4,862	\$ 5,276
Covered payroll ³	\$ 19,455	\$ 18,995	\$ 18,033
ADC as % of payroll	21.6%	25.6%	29.3%
Projected benefit payments	\$ 2,671	\$ 2,745	\$ 2,800

As of 12/31/2017		
Actives		334
Retirees / Survivors		376
Terminated Vested ⁴		34
Total		744

As of 12/31/2018		
Actives		314
Retirees / Survivors		386
Terminated Vested ⁴		30
Total		730

Funded Status shown above is based on a 6.34% discount rate for 2019 and a 6.00% discount rate for FYE 2020 and 2021 (funding assumption), which is amortized and included as a component of the Actuarially Determined Contribution (ADC). FYE 2020 and 2021 contributions include the impact of the experience study updates described on page 2.

¹ Projected on a "no gain/loss" basis from 12/31/2019 valuation.

² Includes normal cost (reduced for estimated employee contributions) and amortization of unfunded AAL.

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⁴ Including those eligible for retiree health benefits only.

Actuarially Determined Contribution (ADC)

(in thousands)



Mental Health

Funded Status at End of Year	1/1/2019	1/1/2020	1/1/2021 ¹
Actuarial Liability (AAL)	\$ 13,203	\$ 15,219	\$ 15,787
Smoothed value of assets (AVA)	(17,976)	(18,975)	(19,915)
Unfunded AAL	\$ (4,773)	\$ (3,756)	\$ (4,128)
Funded Ratio	136.2%	124.7%	126.1%

Fiscal Year ADC	2019	2020	2021 ¹
ADC ²	\$ 0	\$ 0	\$ 0
Covered payroll ³	\$ 9,039	\$ 9,289	\$ 8,793
ADC as % of payroll	0.0%	0.0%	0.0%
Projected benefit payments	\$ 585	\$ 632	\$ 672

As of 12/31/2018		
Actives		157
Retirees / Survivors		79
Terminated Vested ⁴		21
Total		257

As of 12/31/2019		
Actives		148
Retirees / Survivors		82
Terminated Vested ⁴		23
Total		253

Funded Status shown above is based on a 6.34% discount rate for 2019 and a 6.00% discount rate for FYE 2020 and 2021 (funding assumption), which is amortized and included as a component of the Actuarially Determined Contribution (ADC). FYE 2020 and 2021 contributions include the impact of the experience study updates described on page 2.

¹ Projected on a "no gain/loss" basis from 12/31/2019 valuation.

² Includes normal cost (reduced for estimated employee contributions) and amortization of unfunded AAL.

³ FY 2021 covered payroll is projected from FY 2020 and takes into account anticipated terminations and retirements.

⁴ Including those eligible for retiree health benefits only.

Actuarially Determined Contribution (ADC)

(in thousands)



Road Commission

Funded Status at End of Year	1/1/2019	1/1/2020	1/1/2021 ¹
Actuarial Liability (AAL)	\$ 14,150	\$ 12,795	\$ 12,867
Smoothed value of assets (AVA)	(2,544)	(3,692)	(4,581)
Unfunded AAL	\$ 11,606	\$ 9,103	\$ 8,280
Funded Ratio	18.0%	28.9%	35.6%

Fiscal Year ADC	2019	2020	2021 ¹
ADC ²	\$ 1,470	\$ 1,219	\$ 941
Covered payroll ³	\$ 3,227	\$ 3,204	\$ 3,044
ADC as % of payroll	44.9%	38.0%	35.6%
Projected benefit payments	\$ 787	\$ 818	\$ 836

As of 12/31/2018		
Actives		53
Retirees / Survivors		119
Terminated Vested ⁴		6
Total		178

As of 12/31/2019		
Actives		50
Retirees / Survivors		118
Terminated Vested ⁴		5
Total		173

Funded Status shown above is based on a 6.34% discount rate for 2019 and a 6.00% discount rate for FYE 2020 and 2021 (funding assumption), which is amortized and included as a component of the Actuarially Determined Contribution (ADC). FYE 2020 and 2021 contributions include the impact of the experience study updates described on page 2.

¹ Projected on a "no gain/loss" basis from 12/31/2019 valuation.

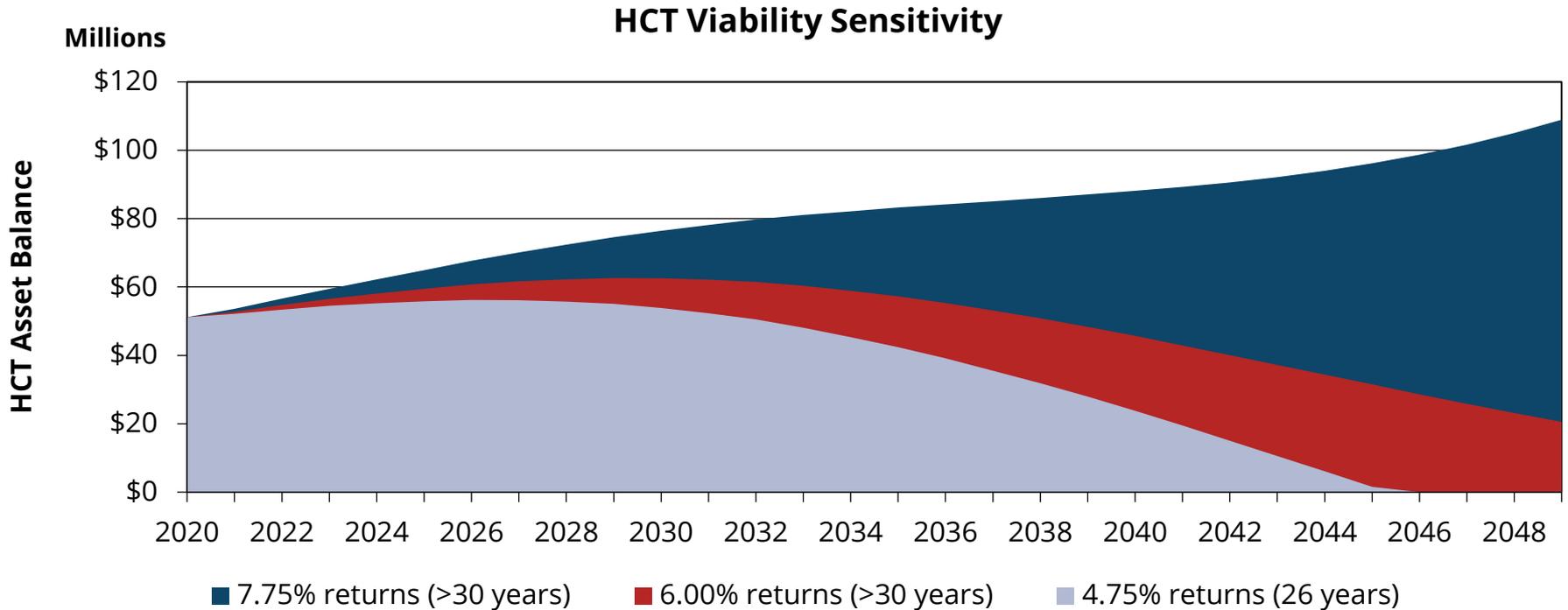
² Includes normal cost (reduced for estimated employee contributions) and amortization of unfunded AAL.

³ FY 2021 covered payroll is projected from FY 2020 and takes into account anticipated terminations and retirements.

⁴ Including those eligible for retiree health benefits only.

HCT Projections

All Locations



- Viability of Health Care Trust (HCT) is sensitive to investment income earned and future Trust contributions. Below is a comparison of the viability of the Trust under three different return scenarios:

	Low Return (4.75%)	Expected Return (6.00%)	High Return (7.75%)
# of years until depletion	26	>30	>30

HCT Projections



Assumptions used to determine the viability of HCT:

- Market Value of Asset as of 1/1/2020 of \$51.2 million.
- Active employee contribution of 2.5% for all County employees and 2.0% for Mental Health. Contribution is limited to the first \$50,000 of salary for a majority of County employees.
- Future salary is projected from 12/31/2019 salary and takes into account future terminations and retirements.
- Flat dollar employer contributions as shown below, which are determined based on the average contribution in the past three years. This assumption has been updated since last year and the comparison of current and prior year assumptions are as shown below.

	County (including Sheriff)	Mental Health	Road Commission
Current	\$ 929,000	\$ 423,000	\$ 1,289,000
Prior	\$ 924,000	\$ 393,000	\$ 1,285,000

- Under the GASB 75 accounting standard, the depletion date of the Trust can affect the discount rate used for accounting disclosure purposes. However, due to the market value of assets as of 1/1/2020 and continued (assumed) contributions, the Trust is not expected to be depleted based on GASB 75 requirements for this calculation.

HCT Projections



Viability of HCT varies greatly between locations. Based on the market value of assets by location, the viability of HCT using a 6.00% assumption is as shown below.

	County (including Sheriff)	Mental Health	Road Commission
MVA as of 1/1/2020 (in millions)	\$ 26.6	\$ 20.6	\$ 4.0
HCT depleted in	16 years	>30 years	>30 years



PA 202: Additional Reporting

The County will be required to report under the PA 202 uniform assumption requirements for Form No. 5572 similar to last year. These disclosures include the Actuarial Value of Assets (AVA), Actuarial Accrued Liability (AAL), and Actuarially Determined Contribution (ADC). The 2020 Uniform Assumption requirements are described briefly below:

Assumption	Uniform Assumption Guidance
Investment Rate of Return	Maximum of 7.00%
Discount Rate	Blended discount rate calculated per GASB 74/75: <ul style="list-style-type: none">• Maximum of 7.0% where plan assets are sufficient to make projected benefit payments• 3.50% for periods where assets are insufficient to make projected benefit payments
Salary Increase	Minimum of 3.50% or based on actuarial experience study within the past 5 years
Mortality Table	A version of PUB-2010 with Scale MP-2018 generational mortality improvement or based on actuarial experience study within the past 5 years
Amortization Period	Maximum closed period of 29 years for Retiree Health Systems
Asset Valuation	Market Value as reported on Financial Statements
Healthcare Inflation	Non-Medicare: 8.25% decreasing 0.25% per year to a 4.50% long-term rate Medicare: 6.50% decreasing 0.25% per year to 4.50% long-term rate

Next Steps



Identify follow-ups based on today's meeting



Issue December 31, 2019 funding valuation report



Issue December 31, 2020 accounting valuation report (after FY 2020 assets are available)

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APPENDIX



Substantive Plan Provisions

ELIGIBILITY

Original Plan Members – earlier of:

- Age 55 (or age 50 for Sheriff) with 25 years of service (YOS)
- Age 60 with 8 YOS
- 25 YOS and 80 points

Modified Plan Members – earlier of:

- Age 55 (or age 50 for Sheriff) with 25 YOS
- Age 60 with 20 YOS
- 25 YOS and 80 points

STATUS OF THE PLAN

Plan is closed to new hires for all General County, Mental Health, and Road Commission.

SPOUSE BENEFIT

Surviving spouse can continue coverage upon death of the retiree or active employees who have at least ten YOS at time of death. Surviving spouse contribution requirement follows member's contribution requirements prior to their death.

RETIREE CONTRIBUTIONS

Employees are eligible for retiree health benefits if they meet all of the following requirements:

- Original Plan Members – have at least 8 YOS at retirement and contribute to Health Care Trust (HCT) while actively employed if it's required in their Collective Bargaining Agreement (CBA).
- Modified Plan Members – have at least 20 YOS at retirement and contribute to HCT while actively employed if it's required in their CBA.
- All employees may purchase retiree health benefits if they have at least 11 YOS at retirement regardless of whether they contribute to HCT while actively employed.

TERMINATED VESTED EMPLOYEES

- Commencing at age 55 or age 60 if they have at least 25 YOS or fewer than 25 YOS at termination respectively.
- Contribution requirements follow regular retirees.

DISABILITY RETIREMENT (Sheriffs Only)

- No age / service requirement for duty disability, ten YOS for non-duty disability.
- Contribution requirements follow regular retirees.



Actuarial Assumptions

Interest Rate	6.00% for funding valuation as of 12/31/2019 and 4.60% for accounting purposes as of 6/30/2020 ¹
Annual Pay Increases	2.25% plus merit scale based on the December 2019 Pension Experience Study
Mortality Rates	Various Pub-2010 Headcount-weight Mortality Tables using scale MP-2019
Actuarial Cost Method	Entry Age Normal Cost (as a % of pay)
Amortization Method	Level dollar for County and level % of pay for Mental Health and Road Commission Amortization period used in calculating FY 2020 ADC is 10 years
Asset Valuation Method	Actuarial value of assets with 5-year smoothing of asset gains and losses
Retirement and Withdrawal Rates	Varies by age, service, and employee type – based on December 2019 Pension Experience Study
Disability Rates	Varies by age – only valued for Sheriff group (25% of disability is assumed to be line of duty)
Medical/Rx Trend Rates	Pre-65: Initial rate of 8.0% decreasing to an ultimate rate of 4.5% in 7 years for all locations Post-65: Initial rate of 7.0% decreasing to an ultimate rate of 4.0% in 6 years for all locations
Dental Trend Rates	Constant 5.0%
Health Care Coverage Election Rate	Active employees with coverage: <ul style="list-style-type: none">• 90% for County General• 75% for Mental Health• 80% for Sheriff• 85% for Road Commission 100% of terminated vested 100% of retirees with current coverage All participants without current coverage are assumed never to elect coverage.

¹ Will be updated as of 12/31/2020 when available