

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2018

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. The Road Commission provides postemployment healthcare insurance benefits to certain retired union and administrative employees and/or their spouse pursuant to a single-employer Plan administered by the Road Commission

Benefits Provided. The Road Commission provides post-employment healthcare benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The postemployment healthcare benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield (BC/BS) Supplemental Insurance Plan or 50% of the BC/BS Senior Choice Plan. The postemployment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992, and \$5,000 for employees who retired prior to July 1, 2003, and \$10,000 for those who retired after that date.

Employees covered by benefit terms. At the September 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members receiving or entitled to future benefits	43
Active Plan Participants	<u>39</u>
Total Participants	<u>82</u>

Contributions. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ending September 30, 2018, 43 retirees were eligible for the post-retirement healthcare benefits at a cost of \$259,469.

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NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Net OPEB Liability. The Road Commission's net OPEB liability was measured as of September 30, 2018. The September 30, 2018 total OPEB liability was determined by an actuarial valuation performed as of September 30, 2017, which used update procedures to rollforward the estimated liability to September 30, 2018.

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

Inflation	Implicit in expected payroll increases
Salary increases	1.0%
Investment rate of return	N/A; plan is not pre-funded
PA 202 uniform discount rate	3.00%
Mortality	2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables

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

Discount Rate. The discount rate used to measure the total OPEB liability was 3.00%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. The discount rate used for September 30, 2017 was 3.51%.

Changes in Net OPEB Liability

<u>Changes in Net OPEB Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at September 30, 2017	\$ 5,682,426	\$ -	\$ 5,682,426
Changes for the Year:			
Service Cost	162,784	-	162,784
Interest	200,613	-	200,613
Experience (Gains) / Losses	(48,511)		(48,511)
Change in actuarial assumptions	54,596		54,596
Contributions - Employer	-	259,469	(259,469)
Benefit Payments, Including Refunds	<u>(259,469)</u>	<u>(259,469)</u>	<u>-</u>
Net Changes	<u>110,013</u>	<u>-</u>	<u>110,013</u>
Balance at September 30, 2018	<u>\$ 5,792,439</u>	<u>\$ -</u>	<u>\$ 5,792,439</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.00%) or 1-percentage-point higher (4.00%) than the current discount rate:

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NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

	1% Decrease (2.00%)	Current Discount Rate (3.00%)	1% Increase (4.00%)
Net OPEB liability of the Road Commission	\$ 6,704,988	\$ 5,792,439	\$ 5,073,686

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Rate	1% Increase
Net OPEB liability of the Road Commission	\$ 5,032,004	\$ 5,792,439	\$ 6,759,560

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended September 30, 2018, the Road Commission recognized OPEB expense of \$105,860. At September 30, 2018, the Road Commission reported the deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	\$ -	\$ 33,111
Differences in Assumptions	37,264	-
Total	\$ 37,264	\$ 33,111

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending September 30	Amount
2019	\$ 1,932
2020	1,932
2021	289