

August 8, 2018

PERSONAL & CONFIDENTIAL

Mr. Joseph Young
Village of Lake Orion
21 East Church Street
Lake Orion, Michigan 48362

RE: Village of Lake Orion Other Post-Employment Benefit (OPEB) Plan

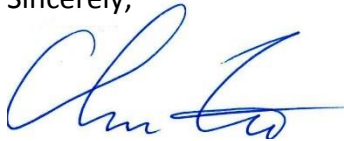
Dear Joe:

Transmitted via email, this is a copy of your OPEB accounting report for the fiscal year ending June 30, 2018. This information is intended to assist you in complying with Governmental Accounting Standards Board Statement No. 74 (GASB 74) Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, and Statement No. 75 (GASB 75) Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

Since GASB 74/75 is new this year, please discuss these results with your accountants and let us know if additional information is needed.

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

Sincerely,



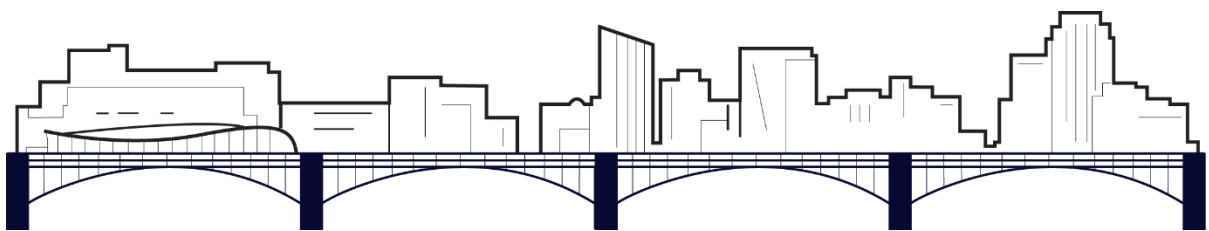
Christian R. Veenstra, ASA, MAAA, EA
President / Enrolled Actuary

Enclosure

Village of Lake Orion Retiree Medical Plan

Accounting Report

for the Period Ending June 30, 2018
under GASB Statement 74/75



Report presented by:



August 2018

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INTRODUCTION AND CERTIFICATION

The schedules included in this report have been prepared in order to provide the information necessary to comply with Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. This information may, at the discretion of management of the plan sponsor and its auditor, be used for the preparation of its financial statements. The calculations herein have been made based on our understanding of GASB 74 and 75, and may be inappropriate for other purposes.

The calculations summarized in this report involve actuarial calculations that require assumptions about future events. We believe that the assumptions used in the report are within the range of possible assumptions that are reasonable and appropriate for the purposes for which they have been used. However, other assumptions are also reasonable and appropriate and their use would produce different results.

This report contains additional information and details related to plan provisions and recommended contribution calculations.

This report was prepared on the basis of participant data and asset values as reported to us by the plan sponsor. Watkins Ross relied upon the data as submitted, and has no reason to believe that any information, which would have a material effect on the results of this valuation, was not considered in the preparation of the report.

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

Prepared by:



Lisa J. Hayes
Senior Pension Analyst

Certified by:



Leah A. Dudley, ASA, MAAA
Health Actuary

PLAN DESCRIPTION

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Village of Lake Orion OPEB Plan and additions to/deductions from the Village's fiduciary net position have been determined on the same basis as they are reported by the Village of Lake Orion. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Village of Lake Orion OPEB Plan is a single employer plan established and administered by ***Village of Lake Orion*** and can be amended at its discretion.

Benefits Provided

A summary of plan provisions is available on page 11.

Summary of Plan Participants

As of June 30, 2018, Retirement Plan membership consisted of the following:

Inactive plan members receiving benefits	10
Covered spouses of retirees	4
Active plan members	<u>5</u>
Total participants	19

Contributions

The Village of Lake Orion OPEB Plan was established and is being funded under the authority of the Village. The plan's funding policy is that the employer will contribute up to \$10,000 in 2019 and discretionary amounts if able in subsequent years. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The Village's OPEB liability was measured as of June 30, 2018.

Actuarial Assumptions

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

Inflation	included in investment rate of return
Salary increases	3.0%
Investment rate of return	5.63% including inflation
Mortality	As set forth in IRS Regulations for 2019 (1.430(h)(3)), separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the retirement plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	67.4%	7.35%
Global fixed income	28.9	1.97
Real Assets	2.1	4.36
Diversifying strategies	1.6	0.76

The sum of each target allocation times its long-term expected rate is 5.63%.

Discount Rate

The discount rate used to measure the total OPEB liability was **5.63%**. Because the covered group is closed to new entrants and the employer continues to make benefit payments on a pay-as-you-go basis, assets will theoretically not be depleted and no cross-over point will occur so the average rate above is used for the discount rate. It is our opinion that as long as benefits are paid from general operating funds, those benefits ought to be discounted at the municipal bond rate and a lower discount rate would result in a higher liability. June 30, 2018 is the first year of required compliance with GASB 74, so there is no required discount rate change to disclose.

NET OPEB LIABILITY – GASB 74 PLAN ACCOUNTING

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at July 1, 2017	2,134,717¹	103,539	2,031,178
Changes during the Year			
Service Cost (Beginning of Year)	26,056		26,056
Interest	119,190		119,190
Experience (Gains)/Losses	0		0
Change in actuarial assumptions	0		0
Contributions to OPEB trust	0	10,000	(10,000)
Contributions/benefit paid from general operating funds		87,425	(87,425)
Net Investment Income		8,776	(8,776)
Benefit Payments; Including Refunds of Employee Contributions	(87,425)	(87,425)	0
Administrative Expenses		(554)	554
Other Changes	0	0	0
Total Changes	57,821	18,221	39,600
Balance at June 30, 2018	2,192,538	121,760	2,070,778

Net OPEB Liability – Discount and Trend Rate Sensitivities

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

	1% Decrease,	Current Discount	1% Increase
Discount			
Total OPEB Liability	\$2,481,567	\$2,192,538	\$1,952,073
Plan Fiduciary Net Position	<u>121,760</u>	<u>121,760</u>	<u>121,760</u>
Net OPEB Liability	\$2,359,807	\$2,070,778	\$1,830,313

	1% Decrease	Current trend	1% Increase
Trend			
Total OPEB Liability	\$1,931,805	\$2,192,538	\$2,508,326
Plan Fiduciary Net Position	<u>121,760</u>	<u>121,760</u>	<u>121,760</u>
Net OPEB Liability	\$1,810,045	\$2,070,778	\$2,386,566

¹ End of year liability calculated at 5.63% discount rolled back to the beginning of the year

2018 OPEB EXPENSE – GASB 75

Components of Village's OPEB Expense for the Fiscal Year Ending June 30, 2018

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending June 30, 2018
Service Cost (Beginning of Year)	\$ 26,056
Interest on Total OPEB Liability	119,190
Experience (Gains)/Losses	-0-
Changes of Assumptions	-0-
Employee Contributions	-0-
Projected Earnings on OPEB Plan Investments	(6,095)
Investment Earnings (Gains)/Losses	(536)
Administrative Expenses	554
Other Changes in Fiduciary Net Position	-0-
Total OPEB Expense	\$ 139,169

2018 NET OPEB LIABILITY – GASB 75

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	0	0
Changes of Assumptions	0	0
Investment Earnings (Gains)/Losses	0	2,145
Total	\$0	\$2,145

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

Year Ended June 30,	Amount Recognized
2019	\$ (536)
2019	(536)
2020	(536)
2021	(537)
2022	0
Thereafter	\$ 0

NET OPEB LIABILITY – GASB 75

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of June 30, 2018 is \$121,760

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability June 30, 2017	\$2,031,178
Total OPEB expense	139,169
Contributions	(97,425)
Change in deferred outflows of resources	0
Change in deferred inflows of resources	<u>(2,145)</u>
Net OPEB Liability June 30, 2018	\$2,070,778

Total OPEB Liability by Participant Status

	2018
Active participants	\$908,319
Inactive participants receiving benefits	<u>1,284,219</u>
Total	\$2,192,538

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending June 30,
	<u>2018</u>
Total OPEB Liability	
Service Cost (Beginning of Year)	26,056
Interest	119,190
Changes of Benefit Terms	0
Difference between Expected and Actual Experience	0
Change of Assumptions	0
Benefit Payments (Including Refunds of Employee Contributions)	(87,425)
Net Change in Total OPEB Liability	57,821
Total OPEB Liability – Beginning	2,134,717
Total OPEB Liability – Ending (a)	2,192,538
Plan Fiduciary Net Position	
Contributions to OPEB trust	10,000
Contributions/benefit payments made from general operating funds	87,425
Net Investment Income	8,776
Benefit Payments (Including Refunds of Employee Contributions)	(87,425)
Administrative Expenses	(554)
Other	0
Net Change in Fiduciary Net Position	18,221
Plan Fiduciary Net Position – Beginning	103,539
Plan Fiduciary Net Position – Ending (b)	121,760
Net OPEB Liability – Ending (a)-(b)	2,070,778
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	5.6%
Covered Employee Payroll	Not avail.
Net OPEB Liability as Percentage of Payroll	Not avail.

Schedule of Employer Contributions

	Fiscal Year Ending June 30,	
	<u>2019</u>	<u>2018</u>
Service cost (End of Year)	21,923	27,523
Amortization of unfunded liability	<u>251,475¹</u>	<u>226,285²</u>
Actuarially Determined Employer Contribution	273,398	253,808
Employer Contribution	<u>TBD</u>	<u>97,425</u>
Contribution Deficiency/(Excess)	TBD	156,383
Covered Employee Payroll	Not avail.	Not avail
Contribution as a Percentage of Covered Payroll	Not avail.	Not avail

¹ Based on 10-year, level percent of pay, amortization of unfunded liability; alternative funding scenarios could be considered

² Based on 11-year, level percent of pay, amortization of unfunded liability; alternative funding scenarios could be considered

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions Used in Calculation of Actuarially Determined Contribution

Valuation Date June 30, 2018

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)

Asset valuation method Equal to market value of assets

Actuarial Assumptions

Discount rate – 5.63% for June 30, 2018 liability and 2019 contribution

Rationale – Average effective rate of long term return on assets

20-year Aa Municipal Bond Rate – 3.0%

Rationale – Current bond rate

Payroll inflation – 3.0%

Rationale – Consistent with employer expectations

Return on plan assets – 5.63%

Rationale – Consistent with plan investment experience

Mortality rates – 2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables

Rationale – Based on most up-to-date industry studies as published by the IRS

Monthly per capita claims costs

Pre-65 costs – for retiree or spouse less than age 65, see rates below:

Rationale – actual premiums effective September 2017

Blue Cross/Blue Shield	
Age	Medical
55	\$574.23
56	600.75
57	627.53
58	656.11
59	670.27
60	698.86
61	723.58
62	739.80
63	760.14
64	772.50

Post-65 medical: \$619.33 Single, \$1,238.66 Double per month

Rationale – actual monthly premiums effective January 2019

Implicit Subsidy – not applicable

Rationale – premiums are age-graded

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Inflation rates

Medical:

Pre-65 – 8.0% in 2018 graded to 5.0% over 6 years

Post-65 – 5.0% in all years

Rationale – consistent with experience and national trends

High cost plan excise tax – 0.5% load added to Medical inflation rate

Rationale – Average effective increase on projected costs suggested by some studies

Turnover rates – None

Rationale – small group

Retirement assumption – Upon attainment of 32 years of service

Rationale – Based on employer experience

Marital assumption – 55% of future retirees are expected to elect spouse coverage at retirement, with females three years younger than males

Rationale – consistent with experience

Utilization – 100% of future retirees are expected to receive contributions towards healthcare costs

Rationale – Benefits are provided at no or low cost to retirees

40% excise tax on “high cost” group health coverage – When aggregated, premiums are projected to exceed the 2022 thresholds; The thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following

Data Collection

Date and form of data – All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross.

Changes since prior valuation

- First valuation prepared by Watkins Ross

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year Ended June 30,	Difference Between Expected and Actual Experience	Recognition Period (Years)	Amount Recognized in Year Ended June 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2019	2020	2021	2022+		
2018	0	3.23	0	0	0	0	0	0	0	0
Net Recognized in OPEB Expense			0	0	0	0	0	0	0	0

Schedule of Changes in Assumptions

Year Ended June 30,	Changes in Assumptions	Recognition Period (Years)	Amount Recognized in Year Ended June 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2019	2020	2021	2022+		
2018	0	3.23	0	0	0	0	0	0	0	0
Net Recognized in OPEB Expense			0	0	0	0	0	0	0	0

Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments

Year Ended June 30	Difference Between Expected and Actual Earnings on OPEB Assets	Recognition Period (Years)	Amount Recognized in Year Ended June 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2019	2020	2021	2022+		
2018	(2,681)	5.00	(536)	(536)	(536)	(536)	(537)	0	0	(2,145)
Net Recognized in OPEB Expense			(536)	(536)	(536)	(536)	(537)	0	0	(2,145)

Total Deferred Outflow/(Inflow) of Resources

			Amount Recognized in Year Ended June 30,				
			2019	2019	2020	2021	2022+
Total Deferred Outflow/(Inflow) of Resources			(536)	(536)	(536)	(537)	0

SUMMARY OF PLAN PROVISIONS

Plan name – Village of Lake Orion OPEB Plan

Benefit eligibility

AFSCME Union	Hired prior to 7/1/2007 and 30 years of service
POAM Union	Hired prior to 7/1/2007 and 25 years of service
Non-Union	Hired prior to 7/1/2007 and 25 years of service

Benefit

AFSCME Union	Village pays 75% of premium for retiree and spouse for their lifetimes
POAM Union	Village pays 75% of premium for retiree and spouse for their lifetimes
Non-Union	Village pays 100% of premium for retiree and spouse for their lifetimes

Retiree contribution Balance of premium not paid by the Village, if any

Changes since prior valuation First valuation by Watkins Ross

GLOSSARY

A number of special terms and concepts are used in connection with OPEB plans and the OPEB accounting report. The following list reviews a number of these terms and provides a brief discussion of their meaning.

Accrued Benefit – Each participant has an accrued benefit under the plan. This is the amount of monthly benefit already earned. It is based on past employment with the Village and is payable at normal retirement.

Actuarial Cost Method – This is a mathematical formula which is used to allocate the present value of projected benefits to past and future plan years.

Amortization – The difference between actual and expected investment returns, the difference between actual and expected experience, and the impact of any plan or assumption changes will be amortized and paid over future years.

Depletion Date (Cross-over Point) – The projected date (if any) where plan assets, including future contributions, are no longer sufficient to pay Projected Benefit Payments to current members.

Long-term expected rate of return – The rate of return based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

Market Value of Assets – The market value of all assets in the fund including any accrued contribution for the previous plan year, which was not paid by the end of the year.

Measurement Date – The date the Total OPEB Liability, Fiduciary Net Position, and Net OPEB Liability are determined. For GASB 67, the measurement date is the plan's current fiscal year end.

Net OPEB Liability (NOL) – The Total OPEB Liability less the Plan Fiduciary Net Position.

Plan Fiduciary Net Position – The market value of plan assets as of the measurement date.

OPEB Expense (OE) – The change in the Net OPEB Liability (NOL) recognized in the current measurement period. Changes to the NPL not fully recognized in a given year's OPEB expense will be maintained as deferred inflows and deferred outflows. These will be recognized incrementally in the OPEB expense over time.

Present Value – The present value of a future payment or a series of payments is the amount of each payment, discounted to recognize the time value of money, and further reduced for the probability that the payment might not be made because of death, disability or termination of employment.

Present Value of Accumulated Benefits – The discounted value of all monthly benefit payments due in the future, based on current accrued benefits.

GLOSSARY

Present Value of Vested Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current vested benefits.

Projected Benefit Obligation – The value of benefits earned to the measurement date, but based on anticipated salary levels at retirement, computed in accordance with GAAP accounting rules.

Projected Benefit Payments – All benefits projected to be payable to current active and inactive participants as a result of their past service and their expected future service.

Real Rate of Return – The rate of return on an investment after the adjustment to eliminate inflation.

Service Cost – The value of benefits earned during the current year computed in accordance with GAAP accounting rules.

Single Equivalent Discount Rate – The single rate that gives the same total present value as discounting the Projected Benefit Payments with the long-term expected rate of return until the Depletion Date and discounting any remaining Projected Benefit Payments with the yield on a 20-year AA/Aa tax-exempt municipal bond index.

Total OPEB Liability (TOL) – The actuarial present value of the accrued benefit determined under the entry age actuarial cost method calculated using the Blended Single Equivalent Discount Rate.