

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

NOTE H--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 postemployment healthcare benefits and life insurance benefits in accordance with the provisions of the union and no-bargaining unit agreements. The Road Commission shall pay 100% of the Medical, Vision, and Medicare Part B premiums for the retiree and spouse for a five-year period from the date of retirement. After the five-year period, the Road Commission will pay either (1) 25% of the Blue Cross/Blue Shield Supplemental Insurance Plan (including vision) and 25% of the Medicare Part B premiums for the retiree and spouse for life or (2) 50% of the Senior Choice Plan for the retiree and spouse for life.

The postemployment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$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, 2022, the following employees were covered by the benefit terms:

Active plan members	37
Retirees and beneficiaries	<u>53</u>
Total Members	<u>90</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, 2022, the post-retirement healthcare benefits paid were \$346,105.

Net OPEB Liability. The Road Commission's net OPEB liability was measured as of September 30, 2022. The September 30, 2022 total OPEB liability was determined by an actuarial valuation performed as of September 30, 2021 and rolled forward to September 30, 2022.

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Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2022. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.37%
Salary increases	3.00% (for purposes of allocating liability)
Investment rate of return	6.74% (including inflation)
20-year Aa Municipal bond rate	4.77% (S&P Municipal Bond 20-Year High Grade Rate Index)
Mortality	2010 Public General Employee and Healthy Retiree, Headcount weighted
Improvement Scale	MP-2021

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 real 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan's target asset allocation as of September 30, 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.0%	6.43%
International Equity	24.0%	5.43%
Emerging & Frontier Market	9.0%	7.43%
Fixed Income	36.0%	1.13%

The sum of each target allocation times its long-term expected real rate is 6.74%, including inflation.

Discount Rate. The discount rate used to measure the total OPEB liability was 6.74%. The projection of cash flows used to determine the discount rate assumed that, for the next fifteen years, the Road Commission will make contributions to the OPEB trust of \$75,000 while continuing to pay retiree benefits from general operating funds. Based on this assumption,

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the retirement plan's fiduciary net position was 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", not applicable for this plan), 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. As of September 30, 2021, the discount rate used to value OPEB liabilities was 6.74%.

Changes in Net OPEB Liability

	<u>Increase (Decrease)</u>		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance as of September 30, 2021	\$ 4,650,676	\$ 344,516	\$ 4,306,160
Changes for the year			
Service Cost	88,926	-	88,926
Interest	307,786	-	307,786
Experience (Gains)/Losses	(96,632)	-	(96,632)
Contributions to OPEB trust	-	75,000	(75,000)
Contributions/benefit paid from general operating funds	-	346,105	(346,105)
Net investment income	-	(63,573)	63,573
Benefit payments; including refunds of employee contributions	(346,105)	(346,105)	-
Total changes	<u>(46,025)</u>	<u>11,427</u>	<u>(57,452)</u>
Balance as of September 30, 2022	<u>\$ 4,604,651</u>	<u>\$ 355,943</u>	<u>\$ 4,248,708</u>

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Sensitivity of the net OPEB liability to changes in the discount rate. 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 or 1 percentage point higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability of the Road Commission	\$ 4,958,676	\$ 4,604,651	\$ 4,301,131
Plan Fiduciary Net Position of the Road Commission	355,943	355,943	355,943
Net OPEB Liability of the Road Commission	\$ 4,602,733	\$ 4,248,708	\$ 3,945,188

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
Total OPEB Liability of the Road Commission	\$ 4,262,381	\$ 4,604,651	\$ 5,001,602
Plan Fiduciary Net Position of the Road Commission	355,943	355,943	355,943
Net OPEB Liability of the Road Commission	\$ 3,906,438	\$ 4,248,708	\$ 4,645,659

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended September 30, 2022, the Road Commission recognized OPEB expense of (\$326,060). At September 30, 2022, the Road Commission reported the deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Experience (Gains)/Losses	\$ 10,396	\$ 41,414
Changes in Assumptions	-	16,951
Investment Earnings (Gains)/Losses	59,384	-
Total	\$ 69,780	\$ 58,365

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

Year Ended September 30	Amount
2023	\$ (35,256)
2024	12,713
2025	16,264
2026	17,694
Thereafter	-