



WATKINS ROSS

Retirement Plan Consultants, Actuaries and Administrators

December 1, 2020

PERSONAL & CONFIDENTIAL

Linda Morrison, Finance Director
City of Battle Creek
10 North Division Street
Battle Creek, MI 49014

RE: City of Battle Creek Retiree Health Care Plan

Dear Linda:

Transmitted via email, this is a copy of your Other Post-Employment Benefit (OPEB) Plan accounting report for the fiscal year ending June 30, 2020 **revised to reflect your accounting adjustments as provided**. 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.

This report includes information for reporting to the State of Michigan under Public Act 202.

If you have any questions, I may be reached at (616) 742-9244.

Sincerely,

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

Enclosure

City of Battle Creek

Retiree Health Care Plan

Accounting Report

for the Period Ending June 30, 2020
under GASB Statement Nos. 74 and 75



Report presented by:



December 2020

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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 No. 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 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 himself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared and Certified by:



Christian R. Veenstra, FCA, ASA, MAAA
Enrolled Actuary #20-05668

COMMENTS

Description of Actuarially Determined Contributions

Purpose of Governmental Accounting Standards Board (GASB) Reporting

The objective of GASB is to provide guidelines and requirements for accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources and methods and assumptions that are required to be used to project benefit payments and discount those payments to their actuarial present value.

The methods and assumptions may or may not be an appropriate measure of the plan's liability for funding purposes or for reporting liabilities under Public Act 202 of the State of Michigan. Thus, liabilities and other values calculated for those purposes may differ from the ones used for GASB reporting.

State of Michigan Public Act 202

Public Act 202 (PA 202) was drafted to address the underfunded status of pension and retiree healthcare plans of local governments in Michigan. Accordingly, PA 202 included transparency and funding requirements. In addition, in order that the plans' funded status be reported on a consistent basis, Uniform Assumptions were published. While all of the Uniform Assumptions have a sound and reasonable basis, some might not be appropriate for each plan and therefore may be different than what is used for funding. Additionally, some of the assumptions may differ from what is required for reporting under GASB.

Actuarially Determined Contribution for GASB reporting

GASB reporting includes a 10-year history of actual annual amounts contributed by an employer on behalf of the OPEB plan and an Actuarially Determined Contribution (ADC). In addition, the report includes a summary of assumptions used to determine the ADC. This reporting requirement presumes a separate funding report is completed. However, for many employers, separate funding studies have not been solicited. We have included a contribution section in this report (Schedules of Required Supplementary Information: Description of Actuarially Determined Contribution) that provides this information. The assumptions and methods used for these calculations are derived from those used for GASB reporting and are not necessarily consistent with PA 202. This report includes an ADC determined using an amortization of the unfunded liability over average future service for actives for GASB reporting purposes.

Actuarially Determined Contribution under Public Act 202

Public Act 202 requires a calculation of an ADC using the Uniform Assumptions prescribed under PA 202. This ADC differs from the one used for the 10-year reporting history noted in the paragraph above. (Schedules of Required Supplementary Information: State of Michigan Public Acts 530 and 202 Information)

Changes in Actuarial Assumptions, Plan Changes and Expected Actuarial Experience

After lumping all general changes done as part of changing plan actuary, there was an actuarial gain (decrease in liability) of \$272,000. This includes a decrease in the number of covered lives, claims other than expected updating mortality and healthcare trend and any other minor variations in assumptions that may have occurred. Then, using the prescribed method under GASB for determining the discount rate, lowering the discount rate from 3.22% to 2.73% generated a significant increase of \$5,093,000.

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 City of Battle Creek Employee OPEB Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City of Battle Creek. 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

City of Battle Creek Retiree Health Care Plan is a single employer plan established and administered by **City of Battle Creek** and can be amended at its discretion.

Benefits Provided

A summary of plan provisions is available on page 17.

Summary of Plan Participants

As of June 30, 2020, Retirement Plan membership consisted of the following:

	General	Police & Fire
Inactive plan members receiving benefits	157	153
Active plan members	<u>172</u>	<u>179</u>
Total participants	329	332

Contributions

The City of Battle Creek Employee OPEB Plan was established and is being funded under the authority of the City and under agreements with the unions representing various classes of employees. The plan's funding policy is that the police members contribute 2% of pay and the City contributes 3% of pay during active employment. Fire members contribute 3% of pay while fire retirees hired after May 14, 2007 contribute 3% of pension into 149 trust. Benefit payments for general (MERS) members, will be made from general operating funds.

ASSUMPTIONS AND METHODS

The City's OPEB liability was measured as of June 30, 2020.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.35%
20-year Aa Municipal bond rate	2.66%
Mortality	General and public safety public employer, headcount weighted, sex-distinct mortality with improvement scale MP-2019

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 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Rate Real of Return(%)
Global Equity	60%	5.25%
Global Fixed Income	20	1.25
Private Assets	20	7.25

The sum of each target allocation times its long-term expected rate is 4.85%. Together with inflation, the long term expected return on plan assets is 7.35%

Discount Rate

The discount rate used to measure the total OPEB liability was 2.73%. The projection of cash flows used to determine the discount rate included reported, projected contributions while assets are drawn down to pay retiree benefits. Based on those assumptions, the retirement plan's fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members until 2024. 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. As of June 30, 2019, the discount rate used to value OPEB liabilities was 3.22%

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, 2019	\$62,682,479	6,250,480	\$56,431,999
Changes during the Year			
Service Cost	1,217,385		1,217,385
Interest	2,024,859		2,024,859
Experience (Gains)/Losses	(271,616)		(271,616)
Change in plan terms	-		-
Change in actuarial assumptions	5,092,881		5,092,881
Contributions/benefit paid from general operating funds		1,410,390	(1,410,390)
Contributions – employee and retiree pension		390,550	(390,550)
Net Investment Income		147,822	(147,823)
Benefit Payments; Including Refunds of Employee Contributions	(1,875,778)	(1,875,778)	-
Administrative Expenses		(11,266)	11,266
Other Changes			
Total Changes	6,187,731	61,718	6,126,013
Balance at June 30, 2020	\$68,870,210	6,312,198	\$62,558,012

Net OPEB Liability – Discount and Trend Rate Sensitivities

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

	1% Decrease	Current Rate	1% Increase
Discount			
Total OPEB Liability	\$81,379,592	\$68,870,210	\$59,067,326
Plan Fiduciary Net Position	<u>6,312,198</u>	<u>6,312,198</u>	<u>6,312,198</u>
Net OPEB Liability	\$75,067,394	\$62,558,012	\$52,755,128
Trend			
Total OPEB Liability	\$60,704,149	\$68,870,210	\$79,424,467
Plan Fiduciary Net Position	<u>6,312,198</u>	<u>6,312,198</u>	<u>6,312,198</u>
Net OPEB Liability	\$54,391,951	\$62,558,012	\$73,112,269

OPEB EXPENSE

Components of City's OPEB Expense for the Fiscal Year Ending June 30, 2020

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending June 30, 2020
Service Cost	\$1,217,385
Interest on Total OPEB Liability	2,024,859
Experience (Gains)/Losses	(303,704)
Changes of Assumptions	(1,616,203)
Changes in plan terms	-
Employee and retiree pension Contributions	(390,550)
Projected Earnings on OPEB Plan Investments	(434,302)
Investment Earnings (Gains)/Losses	117,426
Administrative Expenses	11,266
Other Changes in Fiduciary Net Position	-
Total OPEB Expense	\$626,177

NET OPEB LIABILITY

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of June 30, 2020 is \$6,312,198

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	-	1,199,773
Changes of Assumptions	7,418,725	11,903,290
Investment Earnings (Gains)/Losses	<u>400,265</u>	-
Total	\$7,818,990	\$13,103,063

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 June 30,	Amount Recognized
2021	\$(1,802,481)
2022	(1,802,481)
2023	(1,811,789)
2024	(1,119,613)
2025	1,252,291
Thereafter	-

NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability June 30, 2019	\$56,431,999
Total OPEB expense	626,177
Employer Contributions	(1,410,390)
Change in deferred outflows of resources	3,730,617
Change in deferred inflows of resources	<u>3,179,608</u>
Net OPEB Liability June 30, 2020	\$62,558,012

Total OPEB Liability by employer and participant status

	General	P & F	Total
Active participants	\$3,189,640	\$31,398,380	\$34,588,020
Inactive participants receiving benefits	<u>4,818,139</u>	<u>29,464,051</u>	<u>34,282,190</u>
Total	\$8,007,779	\$60,862,431	\$68,870,210

Net OPEB Liability by employer and benefit

	General	P & F	Total
Total OPEB Liability	\$8,007,779	\$60,862,431	\$68,870,210
Plan Fiduciary Net Position	-	<u>6,312,198</u>	<u>6,312,198</u>
Total	\$8,007,779	\$54,550,233	\$62,558,012

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Description of Actuarially Determined Contributions

Recommended Funding Contribution

Previously, under Governmental Accounting Standards Board (GASB) Statement Nos. 43 and 45, an Annual Required Contribution (ARC) was provided in order that an OPEB plan sponsor could either contribute such amount to an OPEB trust or book the balance on the employer’s financial pages as an OPEB Obligation.

GASB Nos. 74 and 75, however, eliminate the ARC as a component of the financial statement and, instead, separately identify an accounting expense that must be recorded on the financial pages - whether or not a contribution was actually made to an OPEB trust. In addition to the OPEB Expense shown under this report, we have determined an Actuarially Determined Contribution for possible funding considerations. A separate report can be prepared showing other funding scenarios if desired.

Actuarially Determined Contribution	Fiscal Year Ending June 30,	
	2021	2020
Discount rate	2.73%	3.22%
Amortization period	11 years	12 years
Amortization method	Level % of pay	Level % of pay
Normal cost	1,624,371	1,217,385
Amortization of Net OPEB Liability	5,477,141	4,632,916
Interest to end of year	193,871	188,380
Expected employee contributions	(179,120)	(254,017)
Expected retiree pension contributions	<u>(77,641)</u>	<u>(108,095)</u>
Total recommended employer contribution	7,038,622	5,676,569

State of Michigan Public Act 202 (PA 202) Contributions

PA 202 was issued by the State of Michigan and requires the calculation of other “contribution” amounts. These are

1. The Actuarially Determined Contribution (ADC) using Assumptions for financial reporting and
2. The minimum required amount to be deposited into an OPEB trust

The first of these contributions as shown in the first table on the following page of this report, \$5,676,569 is required to be reported to the State of Michigan to be measured against your annual revenue in order to determine whether or not a Corrective Action Plan (CAP) must be adopted. This is not a *required* contribution.

The second of these numbers, shown in the last table on the following page of this report is the actual minimum amount the State of Michigan requires you to deposit into a trust and it is based on the normal cost (actuarially calculated) for those covered by your plan and hired after June 30, 2018. This amount is \$33,473. This is 3% of covered payroll for this group. Because the City has contributed well in excess of this amount, *this requirement has been met.*

In addition to the normal cost for new hires, to the extent accumulated assets are not sufficient to cover the liability for post June 30, 2018 hires and cover the year’s retiree health payments, you must continue to pay retiree OPEB benefits from general operating funds. Your assets are sufficient for both so *this requirement has been satisfied.*

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Financial information		2020
Assets (Fiduciary net position)		6,312,198
Liabilities (Total OPEB Liability)		68,870,210
Funded ratio for the Plan Year		9.2%
Actuarially Determined Contribution		5,676,569
Is ARC calculated in compliance with No. Letter 2018-3?		Yes
Membership		
Active members		351
Retirees and Beneficiaries		310
Premiums paid on behalf of the retirants		1,875,778
Actuarial Assumptions		
Actuarially assumed rate of investment return		7.35%
Discount rate		2.73%
Amortization method used for funding unfunded liability		Level %
Amortization period used for funding unfunded liability		12 years
Is each division closed to new employees		No
Healthcare inflation assumption next year		8.25%
Healthcare inflation assumption long term		4.5%
Uniform Assumptions		
Actuarial value of assets using uniform assumptions		6,312,198
Actuarial accrued liability using uniform assumptions		60,485,328
Funded ratio using uniform assumptions		10.4%
Actuarially Determined Contribution (ADC) using uniform assumptions		5,676,569
Information for Summary Report (minimum required contribution) ¹		
Retiree insurance premiums for the year (1)		1,875,778
Normal cost as a percent of covered payroll (2)		2.657%
Covered payroll for employees hired after June 30, 2018 (3)		1,259,818
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)		33,473
Minimum required contribution under PA 202 (1) + (4), minimum -0-		1,909,251

¹ Senate Bill 686 requires that a local unit must contribute at least both of the following – Normal cost for employees first hired after June 30, 2018 and retiree premiums due to retirants in the retirement system; In order to obtain 40% funding, higher contributions may be needed.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending June 30		Prior actuary	Prior actuary
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service Cost	\$1,217,385	\$1,503,153	\$2,444,926
Interest	2,024,859	2,087,663	2,752,781
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(271,616)	-	(1,747,090)
Change of Assumptions	5,092,881	4,524,282	(21,345,849)
Benefit Payments (Including Refunds of Employee Contributions)	(1,875,778)	(1,904,580)	(2,178,985)
Net Change in Total OPEB Liability	6,187,731	6,210,518	(20,074,217)
Total OPEB Liability – Beginning	62,682,479	56,471,961	76,546,178
Total OPEB Liability – Ending (a)	68,870,210	62,682,479	56,471,961
Plan Fiduciary Net Position			
Contributions/benefit payments made from general operating funds	1,410,390	1,446,699	1,734,099
Contributions – employee and retiree pension	390,550	318,750	439,777
Net Investment Income	147,822	177,435	365,451
Benefit Payments (Including Refunds of Employee Contributions)	(1,875,778)	(1,920,528)	(2,178,985)
Administrative Expenses	(11,266)	(12,876)	(14,677)
Other			
Net Change in Fiduciary Net Position	61,718	9,480	345,665
Plan Fiduciary Net Position – Beginning	6,250,480	6,241,000	5,895,335
Plan Fiduciary Net Position – Ending (b)	6,312,198	6,250,480	6,241,000
Net OPEB Liability – Ending (a)-(b)	\$62,558,012	\$56,431,999	\$50,230,961
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	9.2%	10.0%	11.1%
Covered Employee Payroll	25,494,729	29,984,686	28,970,711
Net OPEB Liability as Percentage of Payroll	245.4%	188.2%	173.4%

Schedule of Employer Contributions

	Fiscal Year Ending June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$1,217,385	\$1,503,153	\$2,444,926
Amortization of unfunded liability	4,632,916	Not avail	Not avail
Interest	188,380	Not avail	Not avail
Expected employee contributions	(254,017)	(243,036)	Not avail
Expected retiree pension contributions	(108,095)	(104,176)	Not avail
Actuarially Determined Employer Contribution	\$5,676,569	\$ Not avail	\$ Not avail
Employer Contribution	(1,410,390)	(1,446,699)	(1,734,099)
Contribution Deficiency/(Excess)	\$4,266,179	\$ Not avail	\$ Not avail
Covered Employee Payroll	25,494,729	29,984,686	28,970,711
ADC as a percentage of covered payroll	22.3%	Not avail	Not avail
Employer contributions as a percentage of covered payroll	5.5%	4.8%	6.0%

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods used in Calculation of Actuarially Determined Contribution

Valuation date June 30, 2020

Actuarial Methods

Cost method Entry Age Normal (level percentage of compensation)
 Asset valuation method Market value

Actuarial Assumptions

Discount rate – 3.22% for 2020 contribution; 2.73% for June 30, 2020 liability and 2021 contribution
 Rationale – Blended rate based on long term expected return and the June 30, 2020 20 Year AA Municipal Bond rate

Salary scale – 3.5%
 Rationale – Expected future base pay increases provided by the City of Battle Creek

Return on plan assets – 7.35%
 Rationale – Weighted average of MERS Total Market Portfolio allocation and long term expected rate of return

Marital assumption – 70% of active employees will have a covered spouse at retirement with females 3 years younger than males; Actual spouse data used for retirees
 Rationale – Reflects current marital status of covered population electing coverage

Mortality rates – General and public safety public employer, headcount weighted, sex-distinct mortality with improvement scale MP-2019; Disabled lives version used for disability contingency
 Rationale – Based on most up-to-date public employer studies

Turnover rates – Sample rates below
 Rationale – Based on past employer experience

Years of Service (all ages)	General ees	Years of Service	General ees
0	13.72%	5	4.83%
1	11.41	10	3.22
2	9.31	15	2.38
3	7.35	20	1.82
4	6.02	25+	1.54

Age	Police (%)	Fire (%)
25	4.00%	3.50
30	3.68	2.90
35	3.16	1.50
40	1.88	0.60
45-50	1.40	0.50
55+	0.40	0.50

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Retirement rates – as noted in the tables below

Rationale – Continued from prior valuations and checked against experience for reasonableness

Age	City Managers	General Other
50-54	20%	
55-56	20	20%
57-60	21	21
61-63	22	22
64	23	23
65-66	25	25
67	26	26
68	28	28
69	30	30
70+	100	100

Age	Police	IAFF	OSP	Service	Police	Fire
50			20%	25	60%	30%
51			15	26	30	15
52-56			10	27	30	15
57			15	28	30	15
58			25	29	20	15
59			30	30	20	50
60-65	35%	20%	100	31	20	40
66	25	15	100	32	20	30
67	20	10	100	33	20	20
68-71	15	10	100	34	20	20
72	15	15	100	35+	100	100
73	25	25	100			
74	30	30	100			
75+	100	100	100			

Disability rates – as noted in the table below

Rationale – Common to public employer plan valuations

Age	General	Police & Fire	
		Male	Female
20-30	0.02%	0.06%	0.08%
35	0.05	0.06	0.08
40	0.08	0.15	0.27
45	0.20	0.20	0.30
50	0.29	0.37	0.43
55	0.38	0.67	0.57
60	0.39	1.06	0.76
65	0.39	1.24	0.92

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Benefits valued (monthly)

Rationale – Based on actual stipend and premium amounts in effect as of the valuation date

Plan	Single	Double	Comp	Medicare
Simply Blue-PPO	\$ 608.05	\$1,459.33		
Community Blue PPO2	938.77	2,253.01		
BCBS Traditional Plan	1,033.72	2,480.90	\$1,604.11	
Community Blue PPO 401(h)	919.90	2,207.76		
Medicare Advantage Plan				\$395.43

Plan selection

Police and Fire members retired prior to January 1, 2007 with 401(h) coverage according to the 401(h) plan shown above and switching to Medicare Advantage Plan upon attaining age 65

Fire members hired prior to May 14, 2007 retired prior to July 1, 2004 valued according to current selection of one of first three plans identified above; Simply Blue PPO and Community Blue PPO2 switch to Medicare Advantage Plan upon attaining age 65

Active fire members hired prior to May 14, 2007 if electing coverage assumed to choose 15% Simply Blue, 50% Community Blue or 35% BCBS Traditional Plan

Police retired on or after January 1, 2007, Fire members hired on or after May 14, 2007 and General employees subject to the \$200 cap as summarized in the table below

Rationale – consistent with current plan selection and/or plan provisions

Non-represented employees retiring with a pension payable and collectively bargained employees subject to the following

Collectively Bargained Group	Hired on or before
AFSCME	December 1, 2010
ATU	January 1, 2010
BCSA	June 21, 2011
SEIU	June 30, 2011

Years of service	Employee	Dependent	Total
15+	\$ 120	\$ 80	\$ 200
14	114	76	190
13	108	72	180
12	102	68	170
11	96	64	160
10	90	60	150

Implicit subsidy – None

Rationale – Prior actuarial valuations indicate that the because premiums for police and union are set such that pre-65 costs for those groups are expected to be fully covered by the amount charged, no subsidy beyond the premiums and stipends was valued

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Medical inflation rate – Pre-65: 8.25% in 2020 graded down 0.25% per year to an ultimate rate of 4.5%;
Post-65: 6.75% in 2020 graded down 0.25% per year to an ultimate rate of 4.5%

Rationale – Based on State of Michigan market surveys for increases in the cost of medical care.

Utilization – 90% of eligible employees will elect coverage at early retirement; Actual coverage used for non-active

Rationale – A conservative estimate given the reported number of opt-out members

Assumption changes since prior valuation

- Mortality updated from RP-2014 with MP-2014 improvement scale to Public employer tables with MP-2019 improvements scale
- Medical trend rates were changed from 8.0% graded down to 3.5%
- Discount rate lowered from 3.22% to 2.73% for end of year disclosure

Method changes since prior valuation

- None

Assumptions used for PA 202 Reporting

Discount rate – 3.57%; Blend of 3.5% for unfunded benefits and 7.0% investment return

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 6/30,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2020	2021	2022	2023	2024			2025+
2018	(1,747,090)	6.7818	(257,614)	(257,614)	(257,614)	(257,614)	(201,405)	-	-	(974,247)
2019	-	6.7818	-	-	-	-	-	-	-	-
2020	(271,616)	5.8932	<u>(46,090)</u>	<u>(46,090)</u>	<u>(46,090)</u>	<u>(46,090)</u>	<u>(46,090)</u>	<u>(41,166)</u>	-	<u>(225,526)</u>
Net Recognized in OPEB Expense			(303,704)	(303,704)	(303,704)	(303,704)	(247,495)	(41,166)	-	(1,199,773)

Schedule of Changes in Assumptions

Year Ended June 30,	Changes in Assumptions	Recognition Period (Years)	Amount Recognized in Year Ended 6/30,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2020	2021	2022	2023	2024			2025+
2018	(21,345,847))	6.7818	(3,147,520)	(3,147,520)	(3,147,520)	(3,147,520)	(2,460,730)	-	-	(11,903,290)
2019	4,524,282	6.7818	667,121	667,121	667,121	667,121	667,121	521,556	3,190,040	-
2020	5,092,881	5.8932	<u>864,196</u>	<u>864,196</u>	<u>864,196</u>	<u>864,196</u>	<u>864,196</u>	<u>771,901</u>	<u>4,228,685</u>	-
Net Recognized in OPEB Expense			(1,616,203)	(1,616,203)	(1,616,203)	(1,616,203)	(929,413)	1,293,457	7,418,725	(11,903,290)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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 6/30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2020	2021	2022	2023	2024	2025+		
2018	46,530	5.00	9,306	9,306	9,306	-	-	18,612	-	
2019	254,118	5.00	50,824	50,824	50,824	50,822		152,470		
2020	286,479	5.00	<u>57,296</u>	<u>57,296</u>	<u>57,296</u>	<u>57,296</u>	<u>57,295</u>	<u>229,183</u>		
Net Recognized in OPEB Expense			117,426	117,426	117,426	108,118	57,295	400,265	-	

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended 9/30,				
	2021	2022	2023	2024	2025+
Total Deferred Outflow/(Inflow) of Resources	(1,802,481)	(1,802,481)	(1,811,789)	(1,119,613)	1,252,291

SUMMARY OF PLAN PROVISIONS

Plan name – City of Battle Creek Retiree Health Care Plan

Eligibility Requirements

Eligibility:

Fire OSP	Age 50 with 25 years of service or Age 60 with any amount of service
Police, Fire IAFF and non-rep Fire	Any age with 25 years of service or Age 60 with any amount of service
MERS City Managers	Age 50 with 25 years of service or Age 55 with 15 years of service or Age 60 with 10 years of service or
All other MERS members	Age 55 with 25 years of service or Age 60 with 10 years of service or
Disability Retirement Eligibility	
Duty disability retiree	Any age with any years of service; benefit commences immediately
Non-duty disability retiree	Any age with 5 years of service; benefit commences immediately

Employer benefits:

Police and Fire members retired prior to January 1, 2007 (401(h))

- City pays for retiree health care premium up to a maximum total annual amount \$500,000 for the group

Police members retired on or after January 1, 2007

- Members receive a maximum \$200 per month (single or married) prorated for service
- Surviving spouse receives \$80 per month prorated for service
- Beginning in 2010, members are eligible for an additional dollar subsidy of up to \$8,000 per year

Fire members hired after May 14, 2007

- Members contribute 3% pay and retirees contribute 3% of pension into 149 Trust
- Members receive a maximum \$200 per month prorated for service
- Surviving spouse receives \$80 per month prorated for service

Fire members hired prior to May 14, 2007 and retired after July 1, 2004

- Members contribute 3% pay into 149 Trust
- Members receive full payment of healthcare premiums

General members; hired prior to dates shown in benefit table in Summary of Assumptions

- Members receive a maximum \$200 per month based on service per table shown in Summary of Assumptions

Changes since prior valuation: None

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.

Actuarially Determined Contribution (ADC) – A target or recommended contribution for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

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.

Annual Recommended Contribution (ARC) – the sum of the normal cost payment and the annual amortization payment for past service costs to fund the net OPEB liability.

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.

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

Normal Cost – For GASB 74/75 purposes, normal cost is the equivalent of service cost (see definition of service cost).

Other Post-Employment Benefits (OPEB) – Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.

OPEB Expense (OE) – The change in the Net OPEB Liability (NOL) recognized in the current measurement period. Changes to the NOL 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.

GLOSSARY

Plan assets – Stocks, bonds and other investments that have been segregated and restricted (usually in a trust) to provide for post-retirement benefits. Assets not segregated in a trust, or otherwise effectively restricted so that they cannot be used by the employer for other purposes, are not plan assets, even though it may be intended that those assets be used to provide post-retirement benefits.

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

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.

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 portion of Total OPEB Liability 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.

Valuation Date – The date as of which an actuarial valuation is performed.