



AGENDA ITEM #10.3

REPORT TO CITY COUNCIL

Report Prepared by: Nancy Malecha

Date: February 5, 2019

Subject: Post-Employment Benefit Valuation Report

Report: The City is required to have an actuarial valuation of its Other Post-Employment Benefits (OPEB) every two years. The City has contracted with Hildi Inc. to perform this valuation. Attached is the Post-Employment Benefit Valuation Report for 2018 from Hildi Inc. and a memo explaining this Report.

Council Action Requested: Council motion accepting the Post-Employment Benefit Valuation Report for the valuation year beginning January 1, 2018 and the recommendation to fund the City's OPEB obligation using the pay-as-you-go (PAYGO) method.



MEMORANDUM

To: Pequot Lakes City Council
From: Nancy Malecha, City Administrator
Date: January 30, 2019
Subject: Other Post-Employment Benefit Valuation Report

Every two years, the City of Pequot Lakes is required to perform an Other Post-Employment Benefit (OPEB) valuation in accordance with Government Accounting Standard Board (GASB) Statement No. 75. The purpose of this valuation is to determine the City's obligation regarding post-employment benefits (retiree benefits). Hildi Inc. prepared the attached Post-Employment Benefit Valuation Report for the City of Pequot Lakes for 2018. This information will also be included in the City's annual audit report.

OPEB relates to medical, dental, dental, and other health-related benefits for City retirees. There are two types of insurance benefits for retirees. The first benefit is called the implicit rate benefit. The implicit rate benefit pertains to Minnesota Statute 471.61 which requires a local unit of government to allow a former employee and the employee's dependents to continue to participate indefinitely in the employer-sponsored hospital, medical, and dental insurance group that the employee participated in immediately before retirement, under certain conditions. The second benefit is called the subsidized benefit. The subsidized benefit pertains to retiree insurance benefits as outlined in the City's personnel policies and union contract.

Several pieces of data were used to determine the City's OPEB obligation. This data includes, but is not limited to, the following. (see pages 12-14 of the attached report)

1. employees' ages
2. employees' years of service
3. employees' salaries
4. economic assumptions
5. medical plan designs
6. medical plan claim costs
7. various other assumptions (i.e. future employment, mortality, healthcare cost trends)

Based on the above information, the City's estimated total OPEB liability as of 1-1-18 is \$117,983. The table on page 8 of the attached report illustrates when the projected benefits would incur. After talking with Hildi and our auditors, Schlenner Wenner & Company, I continue my recommendation that the City fund its OPEB obligation using the pay-as-you-go (PAYGO) method. Under the PAYGO funding method, the City would not pre-fund the obligation but instead budget and pay the benefit as it is incurred. The PAYGO funding method is a viable option for a city our size.

If you have any questions, please let me know.

Thank you.

City of Pequot Lakes

**Actuarial Valuation Report
Other Post-Employment Benefits
Under GASB Statement 75**

Valuation Date: January 1, 2018

Measurement Date: January 1, 2018

Fiscal Year Beginning: January 1, 2018

Fiscal Year Ending: December 31, 2018

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Actuarial Certification

We have prepared an actuarial valuation of the other post employment benefit plans for the City of Pequot Lakes as of January 1, 2018 to enable the plan sponsor to satisfy the accounting requirements under Statements of Governmental Accounting Standards No. 75. The results of the valuation set forth in this report reflect the provisions of the plan communicated to us through January 1, 2018. This report should not be used for other purposes or relied upon by any other person without prior written consent from Hildi Incorporated.

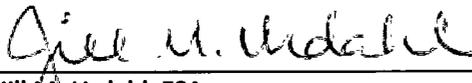
This valuation is based on participant and financial data provided by City of Pequot Lakes and is summarized in this report. An audit of the financial and participant data provided was not performed, but we have checked the data for reasonableness as appropriate based on the purpose of the valuation. We have relied on all the information provided, including plan provisions and asset information, as complete and accurate.

A range of results, different from those presented in this report, could be considered reasonable. The numbers are not rounded, but this is for convenience and should not imply precision. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such future measurements.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures using assumptions that we believe reasonably estimate the anticipated experience of the plan. The calculations reported herein are consistent with our understanding of the provisions of GASB Statement 75.

Actuarial computations under Statements of Governmental Accounting Standards are for the purposes of fulfilling employer accounting requirements and trust accounting requirements. Computations for other purposes may differ significantly from the results shown in this report.

We are available to answer any questions on this material, or to provide explanations or further details, as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report.



Jill M. Urdahl, FSA



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Report finished in December 2018

Executive Summary

This report has been prepared for the City of Pequot Lakes, for the fiscal year ending December 31, 2018, to assist in complying with the reporting and disclosure requirements under GASB Statement 75.

Summary of Results

The results below assume an initial implementation date under GASB 75 for the fiscal year ending December 31, 2018. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds. The overall single discount rate is 3.30%.

OPEB benefits have historically been funded on a pay-as-you-go basis (PAYGO). Under GASB 75, plan sponsors may set up a trust and pre-fund the benefits. There is no requirement to pre-fund benefits under GASB 75. However, continuing on a PAYGO basis will create a Total OPEB Liability (TOL) on the balance sheet. Results throughout the report assume continued funding under PAYGO.

GASB Accounting Summary		
1. Liabilities as of 01/01/2018		
a. Total OPEB Liability (TOL)	\$	117,983
b. Valuation Salary		680,619
c. TOL as % of Payroll, a. / b.		17%
2. Annual Costs for the Year Beginning 01/01/2018		
a. Estimated Pay-as-you-go Cost (PAYGO)	\$	270
b. OPEB Expense Under GASB 75		30,527
3. Discount Rate		3.30%

Key Dates

The results presented in this report are based on a January 1, 2018 valuation date. GASB 75 allows the use of a valuation date that is up to 30 months and one day prior to the most recent fiscal year end.

Valuation Date	January 1, 2018
Measurement Date	January 1, 2018
Reporting Date	December 31, 2018

GASB Statement No. 75

In June 2015, the GASB issued two final Statements detailing how state and local governments should account for and report postemployment benefits other than pensions (OPEBs), such as retiree healthcare. GASB 75 is first effective for plan financial statements for fiscal years beginning after June 15, 2017.

The new standards differ in several ways from the previous applicable standard (GASB 45), including:

- **Balance Sheet Recognition:** GASB 45 recognized the Net OPEB Obligation, which smoothed costs over time and provided deferred recognition on certain items. GASB 75 requires the balance sheet to reflect the Total OPEB Liability.
- **Liability Discount Rate:** GASB 75 requires liabilities to be discounted based a tax-exempt, high-quality 20-year municipal bond index.
- **Liabilities must now be calculated using a method called “Entry Age with level percent of pay”.** This generally will increase liabilities for most plans.
- **Employers are required to recognize a new measure of pension expense that accelerates recognition of benefit changes, actuarial gains and losses, investment gains and losses, and assumption changes.**
- **Replacing most of the current financial disclosures and required supplementary information with information based on new measures.**
- **Valuations are required to be completed every two years for all employers, regardless of the number of Plan Members.**

Plan and Employer Accounting

Reconciliation of Changes in Total OPEB Liability

Below is a reconciliation of the Total OPEB Liability for the fiscal year ending December 31, 2018. *These exhibits should be used as the basis for financial reporting under GASB 75 for the fiscal year ending December 31, 2018. As described in the GASB 75 standard, a one-year lookback may be used when preparing financial disclosures under GASB 75.*

Fiscal Year Ending	December 31, 2018
1. Measurement Year	January 1, 2017 to January 1, 2018
2. Used for Reporting Date	December 31, 2018
3. Total OPEB Liability (TOL) -- Beginning of Measurement Year	\$ 88,055
a. Service Cost	26,748
b. Interest Cost	3,779
c. Assumption Changes	0
d. Plan Changes	0
e. Differences between Expected and Actual Experience	0
f. Benefit Payments	(599)
g. Other Changes	0
h. Net Change in Total OPEB Liability	29,928
4. Total OPEB Liability (TOL) -- End of Measurement Year	\$ 117,983
5. Covered Employee Payroll	680,619
6. TOL as % of Payroll	17%

Assumptions as of the Measurement Date

Measurement Date	1/1/2018
1. Discount Rate	3.30%
2. Medical Trend Rate	6.50% decreasing to 5.00% over 6 years
3. Dental Trend Rate	NA

Total OPEB Liability Sensitivity to Changes in Assumptions

Measurement Date	1/1/2018
1. Selected Discount Rate	\$ 117,983
a. 1% Decrease in Discount Rate	131,170
b. 1% Increase in Discount Rate	105,980
2. Selected Healthcare Cost Trend Rates	\$ 117,983
a. 1% Decrease in Trend Rates	99,445
b. 1% Increase in Trend Rates	140,499

GASB 75 OPEB Expense

Below is the OPEB Expense for the fiscal year ending December 31, 2018. *These exhibits should be used as the basis for financial reporting under GASB 75 for the fiscal year ending December 31, 2018. As described in the GASB 75 standard, a one-year lookback may be used when preparing financial disclosures under GASB 75.*

Fiscal Year Ending	December 31, 2018
1. Components of OPEB Expense	
a. Service Cost	\$ 26,748
b. Interest Cost	3,779
c. Liability Gain or Loss	0
d. Assumption Changes	0
e. Projected Investment Return	0
f. Investment Gain or Loss	N/A
g. Administrative Expenses	0
h. Plan Changes	0
i. Total	<u>30,527</u>
2. Deferred Outflows of Resources	
a. Liability Losses	\$ 0
b. Assumption Changes	0
c. Investment Losses	N/A
d. Estimated Employer Contributions*	<u>270</u>
e. Estimated Total*	270
3. Deferred Inflows of Resources	
a. Liability Gains	\$ 0
b. Assumption Changes	0
c. Investment Gains	<u>N/A</u>
d. Total	0
4. Future Recognition of Deferred Flows in OPEB Expense (Fiscal Years Ending)	
a. December 31, 2018	N/A
b. December 31, 2019	\$ 0
c. December 31, 2020	0
d. December 31, 2021	0
e. December 31, 2022	0
f. December 31, 2023	0
g. Thereafter	0

* Under GASB 75, employer contributions made after the Measurement Date and before the Reporting Date must be disclosed as Deferred Outflows of Resources. The amount shown should be updated with the actual employer contributions when preparing the disclosures at fiscal year-end.

Projected Benefit Payments

The Projected Benefit Payments are based on the assumptions, plan provisions, and participant data as of January 1, 2018. The Projected Benefit Payments are prepared on a closed group basis (i.e. no new entrants).

Year Beginning January 1 and Ending December 31	Implicit Subsidy Only Payments	Subsidized Payments	Total Projected Net Payments
2018	\$ 270	\$ 0	\$ 270
2019	1,771	625	2,396
2020	3,120	1,190	4,310
2021	5,167	2,297	7,464
2022	1,838	762	2,600
2023 - 2027	8,013	1,934	9,947
2028 - 2032	36,021	13,828	49,849
2033 - 2037	147,669	45,678	193,347
2038 - 2042	325,940	65,892	391,832
2043 - 2047	400,696	56,076	456,772
2048 - 2052	116,852	10,345	127,197
2053 - 2057	0	0	0
2058 - 2062	0	0	0
2063 - 2067	0	0	0
2068 - 2072	0	0	0
2073 - 2077	0	0	0

Note: The subsidized payment projections are estimates. When preparing fiscal year-end disclosures, the actual subsidized benefit payments that were made for the fiscal year from City of Pequot Lakes should be used. **Please contact Hildi Inc. when preparing your fiscal year-end disclosures.**

Plan Liabilities

GASB 75 Liabilities

The following table compares the liabilities calculated as of the current valuation date under GASB 75 and the prior valuation date under GASB 45.

Liabilities at Valuation Date		
1. Valuation Date	January 1, 2018	January 1, 2015
2. Discount rate	3.30%	4.00%
3. Medical trend rate		
a. Current year	6.50%	7.25%
b. Ultimate year	5.00%	5.00%
c. Years to ultimate trend rate	6	9
4. Present value of benefits	\$ 585,637	\$ 299,867
5. Accrued liability (Total OPEB Liability)		
a. Split by implicit rate liability vs. direct subsidy liability		
i. Implicit rate liability	94,413	72,555
ii. Direct subsidized liability	<u>23,570</u>	<u>21,991</u>
iii. Total	117,983	94,546
b. Split by status		
i. Actives	117,983	94,546
ii. Retirees and beneficiaries	<u>0</u>	<u>0</u>
iii. Total	117,983	94,546
6. Service Cost	27,550	14,601
7. Estimated net benefit payments		
a. Actives (from expected retirements)	270	117
b. Retirees and beneficiaries	<u>0</u>	<u>0</u>
c. Total	270	117

Comparison to Previous Results

The last valuation completed for City of Pequot Lakes was as of January 1, 2015 under GASB 45. Below is a rough summary showing estimated reasons for changes in the Total OPEB Liability (accrued liability under GASB 45).

Comparison to Previous Results	January 1, 2018
1. Changes in Total OPEB Liability	
a. Expected Liability	\$ 152,633
b. Liability (Gain) / Loss	(36,828)
c. Change Due to Claims and Retiree Premiums	20,935
d. Change Actuarial Cost Method to Entry Age	3,015
e. Assumption Changes	(14,599)
f. Plan Changes	<u>(7,173)</u>
g. Total OPEB Liability	117,983
2. Service Cost	27,550
3. Discount Rate	3.30%

Events & Decisions

Plan Changes:

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.
- The city contribution for union employees changed to 85% of the premium. Also, union employees are now on the same medical plan as other city employees rather than the Teamsters Local 346 plan.

Assumption Changes:

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

Method Changes: The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

Plan Assets

None.

Other Information

Plan Participants

	January 1, 2018	January 1, 2015
1. Participant counts		
a. Actives	14	13
b. Retirees receiving payments	0	0
c. Spouses receiving payments	<u>0</u>	<u>0</u>
d. Total participants	14	13
2. Active participant statistics		
a. Average age	45.8	48.8
b. Average hire service	8.3	8.7
c. Total expected pay for year	\$ 680,619	\$ 607,093
3. Retirees (excludes spouse)		
a. Average age: Pre-65	0.00	0.00
b. Average age: Post-65	0.00	0.00
4. Number of retirees by age		
a. Under 50	0	0
b. 50 to 54	0	0
c. 55 to 59	0	0
d. 60 to 64	0	0
e. 65+	<u>0</u>	<u>0</u>
f. Total	0	0

Covered Population: All of the active employees who have access to health insurance and all retirees who have elected to continue coverage on the employer's medical plan after retirement have been included in this valuation.

Active Participants Age/Service Grid

Attained Age	Years of Service														Total							
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up		No.	Avg. Comp
	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp	No.	Avg. Comp				
Under 25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	0	0	2	39,374	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	39,374	0
35 to 39	0	0	3	39,236	0	0	1	46,072	0	0	0	0	0	0	0	0	0	0	0	4	40,945	0
40 to 44	0	0	1	56,950	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	56,950	0
45 to 49	0	0	0	0	0	0	0	0	1	73,513	0	0	0	0	0	0	0	0	0	1	73,513	0
50 to 54	0	0	1	43,014	1	71,007	1	43,410	0	0	0	0	0	0	0	0	0	0	0	3	52,477	0
55 to 59	0	0	0	0	1	40,310	0	0	0	0	0	0	0	1	60,861	0	0	0	0	2	50,586	0
60 to 64	0	0	0	0	0	0	0	0	1	49,026	0	0	0	0	0	0	0	0	0	1	49,026	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	7	42,346	2	55,659	2	44,741	2	61,269	0	0	0	0	1	60,861	0	0	0	0	14	48,616

The average compensation shown in each cell represents the average for the number of active participants in that cell.

Methods and Assumptions

Summary of Methods	
Valuation/Census Data Date	January 1, 2018
Measurement Date	January 1, 2018
Actuarial Cost Method	Entry Age, level percentage of pay
Actuarial Assets	None
Amortization of Deferred Resource Flows	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes.

Economic Assumptions	
Discount Rate	3.30%
20-Year Municipal Bond Yield	3.30%
Inflation Rate	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.50% as of January 1, 2018 grading to 5.00% over 6 years
Dental Trend Rate	NA

Other Assumptions	
Mortality	RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
Disability	None
Withdrawal	See sample rates
Retirement	See sample rates
Expenses	Assumed paid outside of Plan
Percent Married	Current Retirees: Actual retiree/spouse elections used. Future Retirees: Males 85%, Females 65%
Age Difference	Actual spouse birthdate for current retirees (if provided). For all others, males assumed to be 3 years older than females.
Retiree Plan Participation	Future Retirees Electing Coverage: Pre-65 subsidy available: 100% Pre-65 subsidy not available: 5%
Percent of Married Retirees Electing Spouse Coverage	Percent Future Retirees Electing Pre-65 Spouse Coverage: Spouse subsidy available: 5% Spouse subsidy not available: 5%
Benefits Not Included	City of Pequot Lakes provides access to dental insurance during retirement. However, the implicit rate liability is not significant for dental insurance and has not been included in this valuation.

Analysis of Prescribed Assumptions

None.

Analysis of Non-prescribed Assumptions

Unless otherwise specified below, all non-prescribed assumptions have been determined with input from the actuary, even though the plan sponsor may be ultimately responsible for selecting the assumption.

Economic Assumption	Rationale
All Economic Assumptions	Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.
Discount rate	Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.
20-Year Municipal Bond Yield	The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of the Measurement Date.
Salary Increases	The salary scale has been determined based on the long-term inflation assumption plus any additional wage increase assumption in excess of inflation. The additional wage assumption is based on a review of increases in the taxable wage base compared to inflation. Any additional information on expected salary increases provided by the client is also reflected in the assumption.
Inflation	The long-term inflation assumption has been chosen based on a review of historical changes in the Consumer Price Index (CPI.) Published projections of future inflation rates were also considered.
Mortality	The rates used are recent tables developed and recommended by the Society of Actuaries.
Retirement & Withdrawal	The retirement and withdrawal assumptions used to value GASB 75 liabilities are similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.
Disability	Plan disability benefits are of similar value to other plan benefits. Therefore, disability incidence is presumed to be included in retirement and withdrawal incidence.
Medical Trend Rate	The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.
Retiree Plan Participation & Percent of Married Retirees Electing Spouse Coverage	The plan participation percentages for retirees and their spouses reflect past, current, and expected future expectations of medical plan enrollment for current actives and retirees. These amounts are adjusted to reflect population changes, differences in actual versus expected liabilities, and changes in enrollment/participation patterns.

Changes since prior valuation

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

Sample Withdrawal Rates

Years of Service	Police and Fire: Select Withdrawal % for Males	Police and Fire: Select Withdrawal % for Females
0	3.0%	3.0%
1	3.0%	3.0%
2	3.0%	3.0%

Attained Age	Police and Fire: Ultimate Withdrawal % for Males	Police and Fire: Ultimate Withdrawal % for Females
20	3.00%	3.00%
25	2.60%	2.60%
30	2.10%	2.10%
35	1.60%	1.60%
40	1.25%	1.25%
45	1.25%	1.25%

Years of Service	Others: Withdrawal % for Males	Others: Withdrawal % for Females
0	25.00%	25.00%
1	20.00%	20.00%
2	15.00%	15.00%
3	10.00%	11.00%
4	9.00%	10.00%
5	7.00%	9.00%
6	5.50%	7.50%
7	5.00%	6.50%
8	4.50%	5.50%
9	4.00%	5.00%
10	3.25%	4.25%
15	2.25%	3.00%
20	1.50%	2.25%
25	1.00%	1.75%
30	1.00%	1.50%

Sample Retirement Rates

Attained Age	Police and Fire: Retirement % Rule of 90	Police and Fire: Retirement % Not Rule of 90	Others: Retirement % Rule of 90	Others: Retirement % Not Rule of 90
50	10%	10%	0%	0%
51	7%	7%	0%	0%
52	7%	7%	0%	0%
53	10%	10%	0%	0%
54	10%	10%	0%	0%
55	25%	25%	20%	5%
56	23%	23%	15%	5%
57	23%	23%	15%	5%
58	23%	23%	15%	6%
59	20%	20%	15%	7%
60	23%	23%	50%	8%
61	25%	25%	50%	10%
62	30%	30%	50%	20%
63	30%	30%	50%	20%
64	30%	30%	50%	25%
65+	100%	100%	100%	100%

Summary of Plan Provisions

Following is a summary of the major plan provisions used to determine the plan's financial position. It should not be used in determining plan benefits.

Contract Group		Law Enforcement Personnel	All Other City Employees
Source of Plan Provision Information		Contract effective January 1, 2016	Employee benefits policy effective October 3, 2017
Access to Group Insurance Eligibility	Age*	50	55
	Service**	5	5
Monthly Blended Premium	Medical	2018 premium is \$641 for single and \$922 for family / Valued to Medicare Eligibility	
Subsidized Benefits			
Medical	Eligibility	Age	50 (and eligible for PERA annuity)
		Service	15
	Retiree Benefit		50% (100% with 25 years of service) of the active contribution to medical premium for 3 years or until Medicare eligibility, whichever is earlier 2018 City Contribution to medical insurance is 85% of the premium
			62 15
			50% (100% with 25 years of service) of the active contribution to the medical premium until Medicare eligibility 2018 City Contribution to medical insurance is 85% of the premium
	Spouse Benefit		None
Dental and Life			None

* The access to medical, dental, and life insurance for retirees could possibly happen prior to age 55 (due to certain pension provisions). For OPEB valuation purposes, we have assumed the first access eligibility ages to be 50 and 55, respectively.

** Service requirement is 3 years for employees hired before July 1, 2010. For Police and Fire employees hired after June 30, 2014, the service requirement is 10 years. The effect of this vesting change as of January 1, 2018 is immaterial and is not included in this report.

Changes since prior valuation:

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.
- The city contribution for union employees changed to 85% of the premium. Also, union employees are now on the same medical plan as other city employees rather than the Teamsters Local 346 plan.

Claim Cost Development

Estimated Annual Average Claims		
	Medical	Dental
Pre-65	\$14,539	NA
Post-65	\$0	NA

Pre-65 Healthcare Claims

Starting claim costs were developed by age adjusting the premium information provided by the City of Pequot Lakes. The method to develop claims costs under the Alternative Measurement Method was employed for this valuation under GASB 74/75.

Glossary

Actuarial Cost Method: Sometimes called 'funding method,' a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of OPEB plan benefits, or normal cost, and the related unfunded liability.

Actuarially determined contribution (ADC): A target or recommended contribution to a defined benefit OPEB plan 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. **GASB has not defined an ADC, rather this needs to be defined/developed by the employer.**

Collective deferred outflows of resources and deferred inflows of resources related to OPEB: Deferred outflows of resources and deferred inflows of resources related to OPEB arising from certain changes in the collective net OPEB liability or collective total OPEB liability.

Defined benefit OPEB: OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated based on one or more factors such as age, years of service, and compensation; or (c) a type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums. (OPEB that does not have all of the terms of defined contribution OPEB is classified as defined benefit OPEB.)

Defined contribution OPEB: OPEB having terms that (a) provide an individual account for each employee; (b) define the contributions that an employer or nonemployer contributing entity is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (c) provide that the OPEB an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as OPEB plan administrative costs, that are allocated to the employee's account.

Discount Rate: The single interest rate that will calculate the same Total OPEB Liability as the rates used to calculate the funded and unfunded portion of Total OPEB Liability.

Fiduciary Net Position: Plan assets based on market value as of the measurement date including receivable contributions and offset by plan payables. Market values are sometimes smoothed to soften the impact of investment gains and losses.

Healthcare Cost Trend Rate: The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment Return Assumption: The rate used to adjust a series of future payments to reflect the time value of money. The long-term expected rate of return should be based on the nature and mix of current and expected OPEB plan investments over a period representative of the expected length of future benefit payments. The long-term expected rate of return should be determined net of OPEB plan investment expense but without reduction for OPEB plan administrative expense.

Net OPEB Liability: The difference between Total OPEB Liability and Net Fiduciary Position.

Glossary continued

Other Post-employment Benefits: 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.

Plan Members: The individuals covered by the terms of the plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Post-employment Healthcare Benefits: Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries

Required Supplementary Information (RSI): Schedules, statistical data, and other information that are an essential part of financial reporting. RSI should be presented with, but is not part of, the basic financial statements of a governmental entity.

Service Cost: The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.

Total OPEB Liability: The portion of the present value of prospective benefits allocated to service before the valuation date in accordance with the actuarial cost method.