



**AGENDA ITEM #10.4**

**REPORT TO CITY COUNCIL**

**Report Prepared by: Angie Duus**

---

**Date:** July 7, 2020

**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 2020 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, 2020 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: Angie Duus, City Clerk/Treasurer  
Date: June 19, 2020  
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 2020. 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 13-15 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 net OPEB obligation as of 12-31-20 is \$79,825. The table on page 10 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, 2020

Measurement Date: January 1, 2020

Fiscal Year Beginning: January 1, 2020

Fiscal Year Ending: December 31, 2020

## Table of Contents

---

<b>Actuarial Certification</b>	<b>3</b>
<b>Executive Summary</b>	<b>4</b>
Summary of Results .....	4
Key Dates.....	4
Events & Decisions .....	5
<b>Plan and Employer Accounting</b>	<b>6</b>
Reconciliation of Changes in Total OPEB Liability .....	6
Total OPEB Liability Sensitivity to Changes in Assumptions .....	6
GASB 75 OPEB Expense.....	7
GASB 75 Amortization Schedule .....	8
Required Supplementary Information .....	9
Projected Benefit Payments.....	10
<b>Plan Liabilities</b>	<b>11</b>
GASB 75 Liabilities.....	11
<b>Plan Assets</b>	<b>12</b>
<b>Other Information</b>	<b>13</b>
Plan Participants.....	13
Active Participants Age/Service Grid .....	14
Methods and Assumptions .....	15
Summary of Plan Provisions.....	19
Claim Cost Development.....	20
<b>Glossary</b>	<b>21</b>

## **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, 2020 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, 2020. This report should not be used for other purposes or relied upon by any other person without prior written consent from Hildi Incorporated.

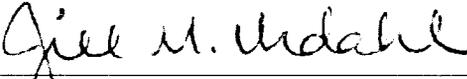
This valuation is based on participant and financial data provided by the City of Pequot Lakes and is summarized in this report. An audit of the financial and participant data provided was not performed, but we have checked the data for reasonableness as appropriate based on the purpose of the valuation. 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

  
\_\_\_\_\_  
Gretchen Faul, ASA

Hildi Incorporated  
14852 Scenic Heights Road, Suite 205  
Minneapolis, MN 55344  
P 952.934.5554

**Report finished in June 2020**

**Executive Summary**

This report has been prepared for the City of Pequot Lakes, for the fiscal year ending December 31, 2020, to assist in complying with the reporting and disclosure requirements under GASB Statement 75.

**Summary of Results**

The results below reflect 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 2.90%.

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.

<b>GASB Accounting Summary</b>		
<b>1. Liabilities as of 01/01/2020</b>		
a. Total OPEB Liability (TOL)	\$	79,825
b. Valuation Salary		775,960
c. TOL as % of Payroll, a. / b.		10%
<b>2. Annual Costs for the Year Beginning 01/01/2020</b>		
a. Estimated Pay-as-you-go Cost (PAYGO)	\$	2,588
b. OPEB Expense Under GASB 75		5,986
<b>3. Discount Rate</b>		<b>2.90%</b>

**Key Dates**

The results presented in this report are based on a January 1, 2020 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, 2020
Measurement Date	January 1, 2020
Reporting Date	December 31, 2020

## Events & Decisions

---

### **Plan Experience:**

There was a liability loss due to updated census data, a liability loss due to claims and premiums higher than expected, and a liability gain due to updating the eligibility for the post-employment medical subsidized benefit for the Law Enforcement Personnel to reflect the hire date provision of January 1, 2013.

**Plan Changes:** None.

### **Assumption Changes:**

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.80% to 2.90%.
- These changes decreased the liability \$5,717.

**Method Changes:** None.

## 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, 2020. *These exhibits should be used as the basis for financial reporting under GASB 75 for the fiscal year ending December 31, 2020. 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, 2020
1. Measurement Year	January 1, 2019 to January 1, 2020
2. Used for Reporting Date	December 31, 2020
3. Total OPEB Liability (TOL) -- Beginning of Measurement Year	\$ 142,605
a. Service Cost	9,511
b. Interest Cost	5,780
c. Assumption Changes	(5,717)
d. Plan Changes	0
e. Differences between Expected and Actual Experience	(72,354)
f. Benefit Payments	0
g. Other Changes	0
h. Net Change in Total OPEB Liability	(62,780)
4. Total OPEB Liability (TOL) -- End of Measurement Year	\$ 79,825
5. Covered Employee Payroll	775,960
6. TOL as % of Payroll	10%

Assumptions as of the Measurement Date	1/1/2020
1. Discount Rate	2.90%
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	1/1/2020
1. Selected Discount Rate	\$ 79,825
a. 1% Decrease in Discount Rate	87,653
b. 1% Increase in Discount Rate	72,518
2. Selected Healthcare Cost Trend Rates	\$ 79,825
a. 1% Decrease in Trend Rates	67,982
b. 1% Increase in Trend Rates	93,999

GASB 75 OPEB Expense

Below is the OPEB Expense for the fiscal year ending December 31, 2020. *These exhibits should be used as the basis for financial reporting under GASB 75 for the fiscal year ending December 31, 2020. 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, 2020
1. Components of OPEB Expense	
a. Service Cost	\$ 9,511
b. Interest Cost	5,780
c. Liability Gain or Loss	(8,040)
d. Assumption Changes	(1,265)
e. Projected Investment Return	0
f. Investment Gain or Loss	N/A
g. Administrative Expenses	0
h. Plan Changes	0
i. Total	<u>5,986</u>
2. Deferred Outflows of Resources	
a. Liability Losses	\$ 0
b. Assumption Changes	0
c. Investment Losses	N/A
d. Estimated Employer Contributions*	<u>2,588</u>
e. Estimated Total*	2,588
3. Deferred Inflows of Resources	
a. Liability Gains	\$ 64,314
b. Assumption Changes	9,484
c. Investment Gains	<u>N/A</u>
d. Total	73,798
4. Future Recognition of Deferred Flows in OPEB Expense (Fiscal Years Ending)	
a. December 31, 2020	N/A
b. December 31, 2021	\$ (9,305)
c. December 31, 2022	(9,305)
d. December 31, 2023	(9,305)
e. December 31, 2024	(9,305)
f. December 31, 2025	(9,305)
g. Thereafter	(27,273)

\* 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.

GASB 75 Amortization Schedule

---

Outstanding amortization bases for Deferred (Inflows) and Outflows of Resources as of the employer fiscal year-end:

<b>Date Established</b>	<b>Type</b>	<b>Original Amount</b>	<b>Original Years</b>	<b>Amortization Amount</b>	<b>Remaining Amount as of 12/31/2020</b>	<b>Remaining Years as of 12/31/2020</b>
1/1/2019	Assumption Change	(\$5,661)	9	(\$629)	(\$4,403)	7
1/1/2020	Liability (Gain)/Loss	(72,354)	9	(8,040)	(64,314)	8
1/1/2020	Assumption Change	(5,717)	9	(636)	(5,081)	8

## Required Supplementary Information

Below is a schedule of changes in the Net OPEB Liability and related ratios for the two most recent fiscal years. Public entities are required to show 10 years of information, or as many years as available until a full 10-year trend is compiled.

Fiscal Year Ending	December 31, 2020	December 31, 2019
1. Measurement Year	January 1, 2019 to January 1, 2020	January 1, 2018 to January 1, 2019
2. Used for Reporting Date	December 31, 2020	December 31, 2019
3. Total OPEB Liability (TOL) -- Beginning of Measurement Year	\$ 142,605	\$ 117,982
a. Service Cost	9,511	25,548
b. Interest Cost	5,780	4,736
c. Assumption Changes	(5,717)	(5,661)
d. Plan Changes	0	0
e. Differences between Expected and Actual Experience	(72,354)	0
f. Benefit Payments	0	0
g. Other Changes	0	0
h. Net Change in Total OPEB Liability	(62,780)	24,623
4. Total OPEB Liability (TOL) -- End of Measurement Year	\$ 79,825	\$ 142,605
5. Covered Employee Payroll	775,960	701,038
6. TOL as % of Payroll	10%	20%

### Notes to Schedule

#### Benefit Changes

- For the fiscal year ending December 31, 2019: None
- For the fiscal year ending December 31, 2020: None

#### Assumption Changes

- For the fiscal year ending December 31, 2019:
  - The discount rate was changed from 3.30% to 3.80%.
- For the fiscal year ending December 31, 2020:
  - The health care trend rates, mortality tables, and salary increase rates were updated.
  - The eligibility for the Law Enforcement Personnel post-employment medical subsidized benefit has been updated to reflect the hire date provision of January 1, 2013.
  - The discount rate was changed from 3.80% to 2.90%.

## Projected Benefit Payments

The Projected Benefit Payments are based on the assumptions, plan provisions, and participant data as of January 1, 2020. 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
2020	\$ 1,721	\$ 867	\$ 2,588
2021	3,710	1,838	5,548
2022	242	0	242
2023	318	0	318
2024	387	0	387
2025 - 2029	6,899	1,763	8,662
2030 - 2034	21,502	7,861	29,363
2035 - 2039	89,113	37,666	126,779
2040 - 2044	129,265	19,508	148,773
2045 - 2049	40,464	1,791	42,255
2050 - 2054	3,081	0	3,081
2055 - 2059	3,383	2,086	5,469
2060 - 2064	10,858	9,793	20,651
2065 - 2069	0	0	0
2070 - 2074	0	0	0
2075 - 2079	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 the 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 and prior valuation date.

<b>Liabilities at Valuation Date</b>		
1. Valuation Date	January 1, 2020	January 1, 2018
2. Discount rate	2.90%	3.80%
3. Medical trend rate		
a. Current year	6.50%	6.50%
b. Ultimate year	5.00%	5.00%
c. Years to ultimate trend rate	6	6
4. Present value of benefits	\$ 220,027	\$ 525,095
5. Accrued liability (Total OPEB Liability)		
a. Split by implicit rate liability vs. direct subsidy liability		
i. Implicit rate liability	74,492	89,308
ii. Direct subsidized liability	<u>5,333</u>	<u>22,528</u>
iii. Total	79,825	111,836
b. Split by status		
i. Actives	79,825	111,836
ii. Retirees and beneficiaries	<u>0</u>	<u>0</u>
iii. Total	79,825	111,836
6. Service Cost	9,796	25,548
7. Estimated net benefit payments		
a. Actives (from expected retirements)	2,588	270
b. Retirees and beneficiaries	<u>0</u>	<u>0</u>
c. Total	2,588	270

**Plan Assets**

---

None.

## Other Information

### Plan Participants

	January 1, 2020	January 1, 2018
1. Participant counts		
a. Actives	15	14
b. Retirees receiving payments	0	0
c. Spouses receiving payments	<u>0</u>	<u>0</u>
d. Total participants	15	14
2. Active participant statistics		
a. Average age	42.7	45.8
b. Average hire service	6.0	8.3
c. Total expected pay for year	\$ 775,960	\$ 680,619
3. Retirees (excludes spouse)		
a. Average age: Pre-65	0.0	0.0
b. Average age: Post-65	0.0	0.0
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

Years of Service														Total							
Attained Age	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											
Under 25	0	0	1	40,726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	40,726
25 to 29	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	1	39,291	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	39,291
35 to 39	0	0	2	47,892	1	50,170	1	51,688	0	0	0	0	0	0	0	0	0	0	0	4	49,410
40 to 44	2	44,845	1	35,568	1	62,608	0	0	0	0	0	0	0	0	0	0	0	0	0	4	46,966
45 to 49	1	39,416	1	65,477	0	0	0	0	0	1	77,897	0	0	0	0	0	0	0	0	3	60,930
50 to 54	0	0	0	0	1	75,021	0	0	0	0	0	0	0	0	0	0	0	0	0	1	75,021
55 to 59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	1	52,624	0	0	0	0	0	0	0	0	0	0	1	52,624
65 to 69	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
<b>Total</b>	<b>3</b>	<b>43,035</b>	<b>6</b>	<b>46,141</b>	<b>3</b>	<b>62,600</b>	<b>1</b>	<b>51,688</b>	<b>1</b>	<b>52,624</b>	<b>1</b>	<b>77,897</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>51,731</b>

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

## Methods and Assumptions

<b>Summary of Methods</b>	
Valuation/Census Data Date	January 1, 2020
Measurement Date	January 1, 2020
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.
<b>Economic Assumptions</b>	
Discount Rate	2.90%
20-Year Municipal Bond Yield	2.90%
Inflation Rate	2.50%
Salary Increases	Service graded table, see sample rates
Medical Trend Rate	6.50% as of January 1, 2020 grading to 5.00% over 6 years
Dental Trend Rate	NA
<b>Other Assumptions</b>	
Mortality	Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale
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	<b>Future Retirees Electing Coverage:</b> Pre-65 subsidy available: 100% Pre-65 subsidy not available: 5%
Percent of Married Retirees Electing Spouse Coverage	<b>Percent Future Retirees Electing Pre-65 Spouse Coverage:</b> Spouse subsidy available: 5% Spouse subsidy not available: 5%
Benefits Not Included	None

<b>Other Assumptions <i>continued</i></b>	
Patient Protection and Affordable Care Act (PPACA)	The PPACA may add a new high-cost plan excise tax (e.g. the Cadillac Tax) starting in calendar year 2022. We have determined the effect of this tax is negligible so no adjustment to the liability was made. We will continue to monitor the impact of this provision under the future guidance on this assumption.

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.

<b>Economic Assumption</b>	<b>Rationale</b>
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 set by reviewing 20-year municipal bond yields.
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 used to value GASB 75 liabilities is similar to the table used to value pension liabilities for Minnesota public employees. The rates are based on the The rates are based on the six-year experience study for the Public Employees Retirement Association of Minnesota General Employees Plan completed in 2015 and a review of the inflation assumption dated September 11, 2017.
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.
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. We have reviewed all provisions of the PPACA that may apply to this valuation and have not made any adjustments, currently, to the medical trend rate due to the potential future Cadillac Tax of the PPACA. We will continue to monitor the PPACA provisions and make adjustments to the Medical Trend Rate, if material.

Analysis of Non-prescribed Assumptions *continued*

Other Assumptions	Rationale
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 rates are based on the Public Employees Retirement Association of Minnesota actuarial experience studies. The most recent six-year experience study for the General Employees Plan was completed in 2015.
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.
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 health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.80% to 2.90%.

Sample Withdrawal and Retirement Rates

Years of Service	Withdrawal % for Males	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%

Attained Age	Retirement % Rule of 90	Retirement % Not Rule of 90
55	20%	5%
56	15%	5%
57	15%	5%
58	15%	6%
59	15%	7%
60	50%	8%
61	50%	10%
62	50%	20%
63	50%	20%
64	50%	25%
65+	100%	100%

Salary Increase Rates

Years of Service	Salary Increase
1	11.25%
2	8.25%
3	6.75%
4	5.75%
5	5.25%
6	4.95%
7	4.65%
8	4.55%
9	4.45%
10	4.25%
11	4.00%
12	3.85%
13	3.75%

Years of Service	Salary Increase
14	3.65%
15	3.65%
16	3.60%
17	3.55%
18	3.50%
19	3.50%
20	3.50%
21	3.50%
22	3.45%
23	3.35%
24	3.35%
25	3.35%
26 or more	3.25%

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.

<b>Contract Group</b>		<b>Law Enforcement Personnel</b>	<b>All Other City Employees</b>
<b>Source of Plan Provision Information</b>		Contract effective January 1, 2019	Employee benefits policy effective October 3, 2017
<b>Access to Group Insurance Eligibility</b>	Age*	50	55
	Service**	5	5
<b>Monthly Blended Premium</b>	Medical	2020 premium is \$851 for single and \$1,191 for family / Valued to Medicare Eligibility	
<b>Subsidized Benefits</b>			
<b>Medical</b>	Eligibility	Age	50 (and eligible for PERA annuity)
		Service	15
	Retiree Benefit	<b>Hired before January 1, 2013:</b> 50% (100% with 25 years of service) of the active contribution to medical premium for 3 years or until Medicare eligibility, whichever is earlier 2020 City Contribution to medical insurance is 85% of the premium	
	Spouse Benefit	None	None
<b>Dental and Life</b>	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 age to be 55.

\*\* Service requirement is 3 years for employees hired before July 1, 2010.

**Changes since prior valuation:** The eligibility for the Law Enforcement Personnel post-employment medical subsidized benefit has been updated to reflect the hire date provision of January 1, 2013.

## Claim Cost Development

---

<b>Estimated Annual Average Claims</b>		
	<b>Medical</b>	<b>Dental</b>
Pre-65	\$18,603	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.