Gabriel Roeder Smith & Company
Consultants & Actuaries

KENT COUNTY RETIREE HEALTH CARE PLAN

ACTUARIAL VALUATION REPORT

DECEMBER 31, 2016

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Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

May 16, 2017

Mr. Stephen W. Duarte
Fiscal Services Director
Kent County Retiree Health Care Plan
300 Monroe Avenue, N.W.
Grand Rapids, Michigan 49503-2222

Dear Mr. Duarte:

Submitted in this report are the results of an Actuarial Valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by Kent County. The date of the valuation was December 31, 2016, from which the Annual Required Contribution was developed for the fiscal year January 1, 2018 through December 31, 2018. This report was prepared at the request of Kent County.

The actuarial calculations were prepared for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of this accounting standard. Determination of the liability associated with the benefits described in this report for purposes other than satisfying the County's financial reporting requirements may produce significantly different results. This report is not compliant with GASB Statement Nos. 74 and 75. A separate report that incorporates GASB Statement Nos. 74 and 75 will be issued at a later date once implementation guides are issued for these new standards.

The actuarial methods and assumptions used in the actuarial valuation are summarized in Section E of this report. The assumptions are established by the Board after consulting with the actuary.

This report should not be relied on for any purpose other than those described above. It was prepared at the request of the Board and is intended for use by the County and those designated or approved by the Board. This report may be provided to parties other than the County only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

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 (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

The valuation was based upon information, furnished by the County, concerning retiree health benefits, individual members, and financial data. Data was checked for internal consistency, but was not audited by us. We are not responsible for the accuracy or completeness of the information provided by the County.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

The signing actuaries are independent of the plan sponsor.

James D. Anderson and Abra D. Hill are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein.

Respectfully submitted,

James D. Anderson

James D. Anderson, FSA, EA, MAAA

Abra D. Hill

Abra D. Hill, ASA, MAAA

JDA/ADH:bd

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual required contribution to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Governmental Accounting Standards Board Statement No. 45.

The Annual Required Contribution (ARC) for the fiscal year beginning January 1, 2018 is $3,151,965 or 3.28% of projected payroll. Actual claims and premiums paid on behalf of retirees from outside of the plan assets may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO). The expected employer portion of the claims and premium amounts paid is estimated to be $3,229,198 for the fiscal year beginning January 1, 2018. This amount reflects the retiree only premium rates and the implicit subsidy for retirees and covered spouses. The expected employer portion is comprised of $1,672,404 in County benefits to retirees and $1,556,794 in retiree health care costs in excess of the premiums charged.

If the employer portion of premiums for existing retirees is paid from existing plan assets, the County can still treat the associated implicit subsidy as contributions toward the ARC. Therefore, if the actual premiums and flat dollar subsidies paid from plan assets turn out to be equal to the estimate of $1,672,404 and the County contributes $1,595,171 (the difference between the total ARC of $3,151,965 and $1,556,794) to the trust, then the ARC will be met and the NOO will be zero.

Per capita costs and illustrative rates were developed from the premiums, claims and enrollment data provided to us. The process used to determine these per capita costs and the results of these calculations are provided in Section B.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described on the previous page, employers have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of Statement No. 45.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13g. of GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of December 31, 2016 is $61,759,606. The actuarial accrued liability, which is the portion of the $61,759,606 attributable to service accrued by plan members as of December 31, 2016, is $53,997,661. As of December 31, 2016, there is $19,656,145 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of December 31, 2016 is 36.4%. This is a increase from 31.1% as of December 31, 2015.

Excise Tax

The Patient Protection and Affordable Care Act includes an excise tax on high cost (Cadillac) health plans beginning in 2020. The excise tax is 40% of costs above a threshold. Possible excise taxes beginning in 2020 have not been reflected in the results presented in this report.

SECTION A

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION FOR OTHER POSTEMPLOYMENT BENEFITS FISCAL YEAR BEGINNING JANUARY 1, 2018

Contributions for	**Development of the Annual Required Contribution for January 1, 2018 - December 31, 2018**
Normal Cost	
Normal Retirement	$ 960,965
Early Retirement	134,535
Death-in-Service	28,829
Disability	48,048
Future Refund of Member Contributions	0
Total Normal Cost	$ 1,172,377
Annual Active Member Contribution	0
Employer Normal Cost	$ 1,172,377
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 1,979,588
Annual Required Contribution (ARC)	**$ 3,151,965**
Projected Payroll for the Fiscal Year Beginning January 1, 2018	$96,096,510
ARC as a Percentage of Projected Payroll	**3.28%**
ARC Per Active Participant (1,465 Actives)	$ 2,152

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with Governmental Accounting Standards Board (GASB) requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF DECEMBER 31, 2016

A. Present Value of Future Benefits	
1. Retirees and Beneficiaries	$26,076,421
2. Vested Terminated Members	0
3. Active Members	35,683,185
Total Present Value of Future Benefits	$61,759,606
B. Present Value of Future Employer Normal Costs	7,761,945
C. Present Value of Future Contributions from Current Active Members	0
D. Actuarial Accrued Liability (A.-B.-C.)	53,997,661
E. Actuarial Value of Assets	19,656,145
F. Unfunded Actuarial Accrued Liability (D.-E.)	$34,341,516
G. Funded Status (E./D.)	36.4%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

DIRECT AND INDIRECT COMPONENTS OF ACTUARIAL ACCRUED LIABILITY AS OF DECEMBER 31, 2016 AND NORMAL COST PROJECTED TO FISCAL YEAR ENDING DECEMBER 31, 2018

Group	Actuarial Accrued Liability			Normal Cost		
	Indirect	Direct	Total	Indirect	Direct	Total
Active	$ 15,918,347	$ 12,002,893	$ 27,921,240	$ 730,333	$ 442,044	$ 1,172,377
Pre-65 Retirees	6,766,826	2,872,144	9,638,970			
Post-65 Retirees		16,437,451	16,437,451			
Total	$ 22,685,173	$ 31,312,488	$ 53,997,661	$ 730,333	$ 442,044	$ 1,172,377

For this purpose, “direct” costs represent the plan provided employer subsidy (e.g., $350/mo). “Indirect” costs represent additional employer costs due to the difference between the total cost of retiree benefits and the portion covered by the sum of “direct” costs and retiree contributions.

COMMENTS

COMMENT A: Our understanding is that Kent County intends to make annual contributions equal to or greater than the Annual Required Contribution. Therefore, we have calculated the liability and the resulting ARC using an assumed investment return of 7.5% as allowed under GASB. This rate is subject to auditor approval. If the County chooses to pre-fund with contributions less than the ARC, Governmental Accounting Standard Board (GASB) requires lowering the assumed investment return on assets. Lowering the assumed investment return would considerably increase the Net OPEB Obligation (NOO) that is disclosed on the employers' financial statement.

COMMENT B: The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (4.0% per year).

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the GASB Statements No. 43 and No. 45. A shorter amortization period would result in a higher ARC.

COMMENT D: Retirees who are currently waiving coverage through the County are assumed to continue waiving coverage indefinitely.

COMMENT E: If the employer portion of premiums for existing retirees is paid from existing plan assets, the County can still treat the associated implicit subsidy as contributions toward the ARC. Therefore, if the actual premiums and flat dollar subsidies paid from plan assets turn out to be $1,672,404 and the County contributes $1,595,171 (the difference between $3,151,965 and $1,556,794) to the trust, then the ARC will be met and the NOO will be zero.

COMMENT F: Currently, no trend is being applied to the monthly flat dollar subsidy, as it is not expected to be increased in the future. If the amount of the flat dollar subsidy is expected to increase, then application of a trend may be appropriate.

COMMENT G: There were several changes to the benefit summary for this valuation, including:

- Addition of the TPOAM benefit group (formally known as UAW-Courts);
- Clarification of the Non-Duty Disability benefit eligibility;
- Change in benefit provided for MPP Parks Retirees. The benefit changed from 90% to 80% County paid health premiums;
- Removal of the Deferred, Disability and Death-in-Service benefits for MPP parks retirees; and
- Removal of spousal continuation for MPP Parks retirees.

COMMENT H: The “Cadillac” tax is a 40% excise tax paid by the coverage provider (employer and/or insurer) on the value of health plan costs in excess of certain thresholds. The thresholds are $10,200 for one-person coverage or $27,500 for family coverage in 2020. Many plans are below the thresholds today, but are likely to exceed them in the next decade. The thresholds will be indexed at CPI-U, which is lower than the medical inflation rates affecting the cost of the plans. There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Combining early retiree and Medicare eligible (post-65) retiree costs are allowed and can keep plans under the thresholds for a longer period of time. For this valuation, health care liabilities have not been loaded for future or current retirees to reflect expected future excise tax liability due to projected “Cadillac Plan” status. As additional guidance on the legislation is issued, we will review and monitor the impact.

COMMENT I: The GASB issued Statement Nos. 74 and 75 for OPEB valuations similar to the new pension standards. GASB Statement No. 74 for the plan OPEB disclosures is effective for fiscal years beginning after June 15, 2016. GASB Statement No. 75 for employer OPEB disclosures is effective for employer fiscal years beginning after June 15, 2017. The GASB has not yet issued the employer implementation guide for Statement No. 75. Our understanding of the application of the recent GASB Statements is stated below, however, GRS consultants are not auditors, and we recommend consultation with your auditors for final determination of which standards will be applicable. The County currently pre-funds the benefits and has the assets set aside in a qualified trust; as a result, the County will need to comply with both GASB Statement Nos. 74 and 75. The information necessary for GASB Statement No. 74 for the December 31, 2017 fiscal year end will be provided at a later date, following the availability of the necessary information at the end of the fiscal year.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

For the self-insured plans, initial premium rates were developed separately for each class (pre-65 and post-65). The rates were calculated by using actual claims and exposure data for the period of January 2014 through December 2016, plus the load for administration fees. The self-insured medical and prescription drug data were provided by the County. Prescription drug claims and the medical claims were analyzed separately since they exhibit different trends and claim payment patterns. Prescription drug claims are also split between pre-65 and post-65 participants since claim costs between these segments is very significant. Using appropriate assumptions, the medical data is split between the pre-65 and post-65 participants since Medicare is available for the post-65 participants and has a significant impact on the claim experience.

For the fully-insured plans, initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The January 1, 2017 fully-insured rates provided by Kent County were utilized to determine the appropriate per capita costs. The pre-65 fully-insured medical premiums are blended rates based on the combined experience of active and pre-65 retired members; therefore, there is an implicit employer subsidy for the non-Medicare eligible retirees since the average costs of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees. The true per capita cost for the pre-65 retirees is developed by adjusting the demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group.

The medical and prescription drug claims experience was better than expected leading to lower than expected self-insured medical per capita costs. Fully-insured drug premiums decreased since the last valuation. The aggregate effect of these elements has led to lower than expected increases in the per capita rates used in the valuation.

The per capita costs shown on the following page are the weighted average costs of the fully-insured and self-insured premiums based on the actual enrollment by plan as of the valuation date.

RETIREE PREMIUM RATE DEVELOPMENT

Age graded and sex distinct premiums are utilized in this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific costs more accurately reflect the health care utilization and cost at that age.

The tables below show the resulting medical and prescription drug one-person monthly premiums at select ages. The premium (or per capita costs) rates shown below reflect the use of age grading.

For Those Not Eligible for Medicare		
Age	**Male**	**Female**
45	$ 522.11	$ 720.58
50	679.85	837.51
55	894.60	976.77
60	1,155.43	1,137.70

For Those Eligible for Medicare		
Age	**Male**	**Female**
65	$266.74	$251.59
70	290.58	281.18
75	312.08	304.52

James E. Pranschke is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

James E. Pranschke

James E. Pranschke, FSA, MAAA — 5/16/2017 Date

SECTION C

SUMMARY OF BENEFIT PROVISIONS

SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2016

PLAN PARTICIPANTS

Members of Kent County with continued employee/retiree participation in employer sponsored health care plans are eligible to receive retiree health care benefits.

HEALTH CARE BENEFIT PROVIDED

Pension Group	OPEB Group	Monthly Flat Dollar Subsidy Amount
35	POLC – Captains/ Lieutenants	$350
11	APAA – Prosecuting Attorneys	$350
12	POLC – Court Reporters	$350
20	UAW	$350
22	TPOAM	$350
55	Teamsters - Parks	$350
50	Teamsters - PHN	$350
31	POAM	$350
30	KCDSA	$350
60	MPP	$350
65	Judges	$350
70	Elected Officials	$350
75	Commissioners	$350
60	Non- Exempt MPP	$350
17	Circuit Court Referees	$350

Subsidy prorated for service less than 25 years.

Pension Groups 11, 20, 35, 50, 60, 65, 70 and 75 – Employees hired on or after January 1, 2016, upon their retirement, will be in a separate group for retiree health premium rating purposes.

Pension Group 22 – Employees hired on or after July 1, 2016, upon their retirement, will be in a separate group for retiree health premium rating purposes.

NORMAL RETIREMENT ELIGIBILITY

Age 60 with 5 years of service or 25 years of service regardless of age. Military service may be purchased.

> For members hired on or after January 1, 2011, age 62 with 5 years of service or age 60 (age 55 for Captains/Lieutenants) with 25 years of service, for the following groups: MPP, UAW, TPOAM, Court Reporters, Teamsters-PHN, and Prosecuting Attorneys.
>
> For members hired on or after January 1, 2012, age 62 with 5 years of service or age 60 with 25 years of service, for the following groups: Teamsters-Parks and Circuit Court Referees.
>
> For KCDSA members hired on or after January 1, 2013, age 60 with 5 years of service or age 50 with 25 years of service.
>
> For POAM/KCLEA members hired on or after January 1, 2015, age 60 with 5 years of service or age 50 with 25 years of service.

EARLY RETIREMENT ELIGIBILITY

Members who retire at age 55 or older with 15 or more years of service are eligible for the flat dollar subsidy above, pro-rated for service less than 25 years.

DEFERRED RETIREMENT ELIGIBILITY

Retirees who terminate employment prior to eligibility for early or normal retirement are not eligible for retiree health care benefits.

DUTY DISABILITY ELIGIBILITY

Employees who retire under a duty disability retirement are immediately eligible for full subsidy. The County pays a pro-rated amount of the flat dollar subsidy on page C-1 for groups 35, 60, 65, 70 and 75.

NON-DUTY DISABILITY ELIGIBILITY

Members who become disabled with ten or more years of service will receive the flat dollar on page C-1, pro-rated for service less than 25 years for groups 30, 31 and 35. All other employees are covered by the Long-Term Disability Plan

DEATH-IN-SERVICE ELIGIBILITY

Survivors of employees who become deceased while employed are eligible to purchase retiree health care benefits at full rates.

BENEFIT FOR SPOUSES OF RETIRED MEMBERS

Spouses of retired employees are eligible to purchase health care through the County. Surviving spouses of deceased retirees are also eligible to purchase health care through the County if receiving a pension benefit from the Kent County Retirement Plan.

NON-MEDICARE AND MEDICARE–ELIGIBLE PROVISIONS

Retiree and spouse are required to enroll in Medicare once eligible. Retiree and spouse pay the Medicare Part B premiums.

VISION AND DENTAL INSURANCE ELIGIBILITY

The County offers fully-insured retiree vision and dental plans to retirees. Retirees pay full cost of premiums.

DENTAL AND LIFE INSURANCE ELIGIBILITY

The County does not offer dental or life insurance coverage for retirees or their dependents.

This is a brief summary of the Kent County provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

DESIGNATED MPP PARKS UNIT MEMBERS
SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2016

PLAN PARTICIPANTS

Designated Members of Kent County MPP Parks Bargaining Unit with continued employee/retiree participation in employer sponsored health care plans are eligible to receive retiree health care benefits.

HEALTH CARE BENEFIT PROVIDED

The County pays 80% of the retiree health care premiums for eligible retirees and spouse named at retirement. Dental and Drug coverage ceases at age 65.

NORMAL RETIREMENT ELIGIBILITY

Members are eligible for retiree health care at age 55 with 20 years of service or at age 55 if the sum of age and service is 75 or greater.

EARLY RETIREMENT ELIGIBILITY

Members who retire under early retirement are eligible for a reduced benefit.

Eligibility	Benefit Paid by County
Age 55 and service sum to 70-74	75% of premium
Age 55 and service sum to 65-69	50% of premium

BENEFIT FOR SPOUSES OF RETIRED MEMBERS

Spouses of retired employees are eligible to purchase health care through the County.

NON-MEDICARE AND MEDICARE–ELIGIBLE PROVISIONS

Retiree and spouse are required to enroll in Medicare once eligible. Retiree and spouse pay the Medicare Part B premiums.

DENTAL ELIGIBILITY

The County provides 100% paid dental until the age of 65.

VISION INSURANCE ELIGIBILITY

The County offers a fully insured retiree vision plan to retirees. Retirees pay full cost of premiums.

LIFE INSURANCE ELIGIBILITY

The County does not offer life insurance coverage for retirees or their dependents.

This is a brief summary of the Kent County provisions for the designated MPP Parks Unit. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

SECTION D

SUMMARY OF VALUATION DATA

TOTAL ACTIVE MEMBERS AS OF DECEMBER 31, 2016
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	14	1						15	$ 513,827
25-29	89	17						106	4,755,315
30-34	67	53	20	1				141	7,625,947
35-39	56	50	78	33	1			218	13,146,748
40-44	34	25	55	94	22			230	14,154,279
45-49	22	24	44	76	91	8		265	17,865,828
50-54	18	24	25	45	42	24	7	185	11,743,335
55-59	11	16	28	49	51	19	14	188	11,635,505
60-64	7	4	10	28	17	10	10	86	5,313,961
65 & Over	1	2	8	7	3	3	7	31	2,091,881
Totals	**319**	**216**	**268**	**333**	**227**	**64**	**38**	**1,465**	**$88,846,626**

There are 3 MPP members in the above totals.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	44.8	years
Service:	13.6	years
Annual Pay:	$60,646	

TOTAL RETIRED MEMBERS AS OF DECEMBER 31, 2016
BY ATTAINED AGE

Attained Age	Number of Retirees and Surviving Spouses			Average Flat Dollar Subsidy (Monthly)
	Male	Female	Total	
Under 55	18	22	40	$283.71
55-59	18	30	48	292.06
60-64	66	70	136	256.88
65 & Over	186	205	391	161.35
Totals	**288**	**327**	**615**	**$200.64**

The number counts above only include those retirees who receive retiree health care coverage through the Kent County Retiree Health Care Plan. However, some of the retirees included above are paying the full "premium" for health care coverage.

BALANCE SHEET

Reported Assets – Market Value	
	December 31, 2016
Cash & equivalents	$ 709,850
Receivables & accruals	59,547
Stocks	14,719,000
Bonds & government securities	4,169,090
Other -Accounts Payable	(1,342)
Total Current Assets	**$19,656,145**

REVENUES AND EXPENDITURES

	2016
Balance – December 31, 2015	$ 17,140,234
Adjustment	-
Balance – January 1	$ 17,140,234
Revenues:	
Employees' contributions	-
Employer contributions	$ 3,439,271
Investment income	1,036,206
Total	$ 4,475,477
Expenditures:	
Benefit payments	$ 1,434,885
Refund of member contributions	-
Administrative and investment expenses	524,681
Total	$ 1,959,566
Balance - December 31	$19,656,145
Rate of Return	2.82%

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

ACTUARIAL COST METHOD

Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual ***entry-age normal cost*** method having the following characteristics:

(i) the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and

(ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Asset Valuation Method. Valuation assets are the market value of assets on the valuation date.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over an open period of 30 years. The 30-year amortization factor used was 18.6531.

The rate of investment return was 7.5% a year, compounded annually net of expenses.

The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 7.5% nominal rate translates to a net real return of 3.5% a year.

The base rate of salary increase used for individual members was 4.0% per year.

The number of active members is assumed to remain constant in the future.

If the number of active members remains constant, then the total active payroll is expected to increase 4.0% annually, the base portion of the individual salary increase assumptions. The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 4.0% per year.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

	Salary Increase Assumptions For an Individual Member		
Sample Ages	**Merit & Seniority**	**Base (Economic)**	**Increase Next Year**
20	7.0 %	4.0 %	11.0 %
25	5.8	4.0	9.8
30	3.5	4.0	7.5
35	2.1	4.0	6.1
40	1.4	4.0	5.4
45	1.1	4.0	5.1
50	0.8	4.0	4.8
55	0.5	4.0	4.5
60	0.2	4.0	4.2
65	0.0	4.0	4.0

The mortality table was the RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2015 Mortality Improvement Scales. These tables were first used for the December 31, 2015 valuation.

Attained Age in 2016*	**Percent Dying Next Year**		**Future Life Expectancy (Years)**	
	Men	**Women**	**Men**	**Women**
50	0.3840%	0.2644%	35.01	37.62
55	0.5593%	0.3672%	30.22	32.69
60	0.7682%	0.5285%	25.65	27.89
65	1.0810%	0.7968%	21.27	23.27
70	1.6616%	1.2790%	17.09	18.86
75	2.7090%	2.1072%	13.25	14.79
80	4.5648%	3.5725%	9.86	11.16

* *Based on retirements in 2016. Retirements in future years will reflect improvements in life expectancy.*

This assumption is used to measure the probabilities of each benefit payment being made after retirement. A margin for future mortality improvements is included in these tables.

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Service Based	
Years of Service	Active Members Retiring Next Year
25	25 %
26	20
27	15
28	15
29	20
30	20
31	20
32	30
33	40
34	60
35	100

Age and Service Based			
	Active Members Retiring Next Year		
Retirement Ages	Eligible at Age 60	Eligible at Age 55	Early
55		25%	5%
56		20	5
57		15	5
58		15	5
59		20	5
60	20%	20	5
61	20	20	5
62	20	30	
63	20	40	
64	20	60	
65	20	100	
66	25		
67	25		
68	25		
69	25		
70	100		

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating Within Next Year
ALL	0	20.00 %
	1	15.00
	2	10.00
	3	8.00
	4	7.00
25	5 & Over	6.00
30		6.00
35		5.40
40		4.40
45		3.70
50		3.20
55		3.00
60		3.00

Rates of disability among active members.

Sample Ages	% of Active Members Becoming Disabled Within Next Year
20	0.02 %
25	0.03
30	0.04
35	0.07
40	0.10
45	0.14
50	0.23
55	0.38
60	0.55

Twenty-five percent of disabilities were assumed to be duty related.

Health cost increases – See table below:

Year	Medical and Drug Trend Rates
2017	9.00%
2018	8.50
2019	8.00
2020	7.50
2021	7.00
2022	6.50
2023	6.00
2024	5.50
2025	5.00
2026	4.50
2027 & Later	4.00

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Decrement Operation: Disability and mortality decrements do not operate during the first 5 years of service. Disability and withdrawal do not operate during retirement eligibility.

Decrement Timing: Decrements of all types are assumed to occur mid-year.

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

Marriage Assumption: Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

Pay Increase Timing: Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.

Medicare Coverage: Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.

Election Percentage: It was assumed that 30% of female retirees and 50% of male retirees would choose not to receive retiree health care benefits through the County. Of those assumed to elect coverage, 30% of males and 21% of females were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to 10% of the surviving spouses upon death of the retiree, if eligible.

Employer Cost: The employer's portion of the per capita cost is assumed to be the implicit subsidy and the applicable flat dollar subsidy. All flat dollar subsidies are assumed to remain level.

SECTION F

DISCLOSURES REQUIRED BY STATEMENTS NO. 43 AND NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Auditor's Note – This information is subject to the County's auditor's review. Please let us know if the County's auditor recommends any changes.

GASB STATEMENTS NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	December 31, 2016
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent-of-Payroll Open
Remaining Amortization Periods	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.0% - 11.0%
Health Care Cost Trend Rate	9.0% Initial to 4% Ultimate over 11 years

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/2006	$ -	$ 40,650,129	$ 40,650,129	0.0%	$ 91,300,604	44.5%
12/31/2007	2,522,191	31,652,880	29,130,689	8.0%	91,856,607	31.7%
12/31/2008	4,201,774	38,377,399	34,175,625	10.9%	94,065,929	36.3%
12/31/2009	6,467,528	39,171,891	32,704,363	16.5%	95,198,853	34.4%
12/31/2010	9,003,067	45,864,042	36,860,975	19.6%	92,734,218	39.7%
12/31/2011	10,531,436	44,257,602	33,726,166	23.8%	91,139,213	37.0%
12/31/2012	12,605,625	48,975,067	36,369,442	25.7%	91,421,357	39.8%
12/31/2013	15,178,339	50,174,616	34,996,277	30.3%	91,589,536	38.2%
12/31/2014	16,705,220	52,899,776	36,194,556	31.6%	90,860,847	39.8%
12/31/2015	17,140,234	55,167,726	38,027,492	31.1%	96,580,051	39.4%
12/31/2016	19,656,145	53,997,661	34,341,516	36.4%	88,846,626	38.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date	Fiscal Year Ending	Annual Required Contribution
12/31/2006	12/31/2008	$ 3,940,154
12/31/2007	12/31/2009	2,811,665
12/31/2008	12/31/2010	3,367,650
12/31/2009	12/31/2011	3,284,650
12/31/2010	12/31/2012	3,600,818
12/31/2011	12/31/2013	3,193,869
12/31/2012	12/31/2014	3,401,518
12/31/2013	12/31/2015	3,318,618
12/31/2014	12/31/2016	3,351,181
12/31/2015	12/31/2017	3,394,981
12/31/2016	12/31/2018	3,151,965

APPENDIX A

OVERVIEW

GASB BACKGROUND AND STANDARDS

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees in the future when they retire.

GASB Statements No. 43 and No. 45 were released in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. Your auditor can assist you in determining which statements apply to your particular situation.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45.

GASB Statement No. 45

Among the requirements of GASB Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

Paragraph 13g. of GASB Statement No. 45 states:

> "An employer has made a contribution in relation to the ARC if the employer has:
>
> 1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
> 2. made premium payments to an insurer, or
> 3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator."

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer's Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year's NOO, plus
- amortization of the prior year's NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan Sponsor's auditor based on information contained herein and elsewhere.

GASB Statement No. 43

If the Plan has assets for GASB Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

Accrued Service - The service credited under the plan, which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability - The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions - Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method - A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent - A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value - The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization - Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Annual Required Contribution (ARC) - The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

Governmental Accounting Standards Board (GASB) - GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Medical Trend Rate (Health Care Inflation) - The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost - The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost". Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Employee Benefits (OPEB) - OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

Reserve Account - An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability - The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability".

Valuation Assets - The value of current plan assets recognized for valuation purposes.

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

May 16, 2017

Mr. Stephen W. Duarte
Fiscal Services Director
Kent County Retiree Health Care Plan
300 Monroe Avenue, N.W.
Grand Rapids, Michigan 49503

Re: Kent County Retiree Health Care Plan

Dear Stephen:

Enclosed are 20 copies of the December 31, 2016 Actuarial Valuation Report of the Kent County Retiree Health Care Plan.

Respectfully submitted,

James D. Anderson

James D. Anderson, FSA, EA, MAAA

JDA:bd
Enclosures