

RECEIVED FEB 22 2012

**WEXFORD COUNTY ROAD COMMISSION
OPEB BENEFITS**

**ACCOUNTING REPORT AND VALUATION
AS PROVIDED FOR UNDER THE ALTERNATE CALCULATION PROVISIONS OF
GASB STATEMENTS NO. 43 & 45**

*For the Period
January 1, 2011 to December 31, 2011*

Prepared by:

Burnham & Flower
INSURANCE GROUP

315 South Kalamazoo Mall
Kalamazoo, Michigan 49007
(800) 748-0554

INTRODUCTION

To the Board of the Wexford County Road Commission:

Burnham & Flower Group is a full-service insurance agency providing group benefits and benefits consulting, primarily to governmental entities. In addition, we provide benefits administration for health and retirement plans through our third-party administration (TPA) department.

This report was prepared by members of Burnham & Flower's TPA staff, who have acquired an extensive knowledge of the Alternate Calculation Method as established under the Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 through training, research and work experience. These employees are not required to hold the certification of an Enrolled Actuary to complete the alternate calculation process.

The calculations summarized in this report require assumptions about future events. In all circumstances, we have endeavored to use assumptions that are reasonable and appropriate, given the intended purpose of the report. However, there may be other assumptions that would also be both reasonable and appropriate, and would return a different result.

In preparing this report, we relied on participant information provided by the Plan Sponsor, and our understanding of the terms of the Plan Sponsor's retiree benefit provisions. We believe this information to be accurate, and are not aware of any additional information of a material nature was overlooked in the preparation of this report.

Prepared by:

Burnham & Flower
INSURANCE GROUP

WEXFORD COUNTY ROAD COMMISSION OPEB BENEFITS

TABLE OF CONTENTS

| | |
|-----|--|
| I | About GASB 45 and the Alternate Calculation Method |
| II | Annual Required Contribution and Liability Assumptions |
| III | Notes the the Employer's Financial Statements |
| IV | Annual Required Contribution (ARC) Calculation |
| V | Annual Cost/Obligation Calculation |
| VI | Schedules |

Appendices

| | |
|---------|--|
| Table 1 | Probability of Remaining Employed until Assumed Retirement Age, by Age |
| Table 2 | Expected Future Working Lifetimes of Employees, by Age—Default Values |
| Table 3 | Mortality |
| Table 4 | GASB Terms Defined |

WEXFORD COUNTY ROAD COMMISSION

OPEB BENEFITS

About GASB 45

Governmental Accounting Standards Board Statement No. 45 ("GASB 45") requires governmental entities to change the way the cost of Other Post-Employment Benefits (OPEBs) are reported. Currently, most governmental entities both finance and report OPEB costs as they are incurred. However, GASB believes that the cost of such benefits should be associated with the period in which those benefits are earned by the participant, rather than when the cost associated with providing those benefits are paid.

GASB 45 Effective Dates

The provisions of GASB will be phased in over a period of three years. Although GASB does encourage early implementation, the timetable for required compliance is as follows:

- Phase 1 governments (those with total annual revenue of more than \$100 million)
 - Statement is effective for periods beginning after December 15, 2006
- Phase 2 governments (total annual revenue between \$10 million and \$100 million)
 - Statement is effective for periods beginning after December 15, 2007
- Phase 3 governments (total annual revenue of less than \$10 million)
 - Statement is effective for periods beginning after December 15, 2008

About The Alternative Measurement Method

Under certain circumstances, a single employer that operates a Plan with less than 100 total members (including active employees, inactive employees who are not yet receiving benefits, retirees, and beneficiaries) may apply a simplified measurement method in lieu of obtaining an actuarial valuation. This alternate calculation requires the same broad measurement steps as would be necessary in the actuarial process, but allows an organization to utilize a set of predetermined assumptions that simplify the calculations necessary to determine the OPEB liability. This liability must be represented in the organization's financial statements in the same manner as the traditional actuarial valuation.

Some Important Notes on Funding:

- GASB 45 does not change the cost or any of the provisions that relate to providing OPEBs. Only the timing and method of recognizing these costs is addressed.
- GASB 45 does not require an organization to set aside assets to fund OPEBs. Employers may continue to fund the cost of benefits on a "pay as you go" basis. However, GASB 45 requires that an organization recognize any liability that results from the application of GASB 45 as an unfunded liability. Any pre-funding the employer accumulates in a separate trust will directly reduce the amount of unfunded liability the organization must recognize on its balance sheet.
- In addition, to the item above, there is yet another benefit to prefunding. GASB specifies a Discount Rate of 4% to be used in the Alternate Calculation. However, if assets are set aside, GASB allows the organization to increase the Discount Rate to one of the following: 1) The actual rate of return on the GASB Trust (if the ARC is fully funded each year) or 2) a blended rate (if the ARC is partially funded). An increase in the Discount Rate will in turn lower the ARC in the years following the initial funding.

**WEXFORD COUNTY ROAD COMMISSION
OPEB BENEFITS**

ASSUMPTIONS FOR OPEB COST

The following assumptions were used in the preparation of the alternate calculation and are considered to be reasonable for this plan:

FOR VALUATION OF THE ANNUAL REQUIRED CONTRIBUTION

ACTUARIAL COST METHOD: Alternate Method as provided under GASB 45

| | |
|--------------------------------|---|
| DISCOUNT RATE: | 4.00% |
| MORTALITY PRIOR TO RETIREMENT: | None |
| TURNOVER PRIOR TO RETIREMENT: | See Table 1 |
| EXPECTED FUTURE WORKING LIFE: | See Table 2 |
| SALARY SCALE: | 3.00% |
| POST RETIREMENT INTEREST RATE: | 7.00% |
| POST RETIREMENT MORTALITY: | See Table 3 |
| HEALTH CARE INFLATION RATE: | NIH NATIONAL HEALTH EXPENDITURE PROJECTIONS, 2009-2019 |

FOR DETERMINATION OF CURRENT LIABILITY

INTEREST ON NET OPEB OBLIGATION: 7.00%

WEXFORD COUNTY ROAD COMMISSION OPEB BENEFITS

NOTES TO EMPLOYER'S FINANCIAL STATEMENTS:

1. The Measurement Year for this Plan begins: January 1, 2011
The date of initial application of GASB 43/45 is: January 1, 2011
2. The demographic assumptions used (retirement and termination rates, and salary increases, if any) are as of: December 31, 2011
3. The Wexford County Road Commission Retiree Medical Plan is a single-employer Plan administered by the Commission and can be amended at its discretion.
4. At the time of this reporting, membership of the plan consisted of the following:

| | | |
|---|----|--|
| Active Plan Members | 32 | |
| Retirees and beneficiaries receiving benefits | 24 | |
| Total Plan Members | 56 | |
5. The Commission has the authority to establish the funding policy for the Plan, and to amend the obligations of both the Commission and members.
6. Active members are not obligated to make contributions to the Plan at this time.
7. As of the date of this reporting, the organization has not yet made contributions to the Trust that are in excess of the benefit payments due in the current year.

WEXFORD COUNTY ROAD COMMISSION OPEB BENEFITS

DETERMINATION OF ANNUAL REQUIRED CONTRIBUTION (ARC)

Using the Entry Age Cost Method and the UAAL Amortized as a Level Percentage of Payroll

| | |
|-------------------------------------|----------------------|
| Normal Cost Component | |
| Normal Cost | \$ 129,095.00 |
| Interest | \$ 5,164.00 |
| Total Normal Cost | \$ 134,259.00 |
| Amortization Component | |
| AAL | \$ 2,898,909.00 |
| Less: Assets | \$ - |
| UAAL | \$ 2,898,909.00 |
| Divided by PV factor | 26.1695 |
| Amortization payment | \$ 110,774.00 |
| Interest | \$ 4,431.00 |
| Total Amortization Payment | \$ 115,205.00 |
| Annual Required Contribution | \$ 249,464.00 |

**WEXFORD COUNTY ROAD COMMISSION
OPEB BENEFITS**

ANNUAL COST FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)

This reconciliation must be disclosed in the footnotes
to the sponsor's financial statements.

| | |
|--|----------------------|
| 1 Annual Required Contribution | <u>\$ 249,464.00</u> |
| 2 Interest on Net OPEB Obligation | \$ - |
| 3 Adjustments to ARC | <u>\$ -</u> |
| 4 Annual OPEB Cost (Line 1 + Line 2 + Line 3) | \$ 249,464.00 |
| 5 Contributions Made * | <u>\$ 79,563.96</u> |
| 6 Increase/Decrease in net OPEB Obligation (Line 4 - Line 5) | \$ 169,900.04 |
| 7 Net OPEB obligation (beginning of year) ** | <u>\$ -</u> |
| 8 Net OPEB obligation (end of year) (Line 6 + Line 7) | \$ 169,900.04 |

* Anticipated annual benefit payments (premiums) on behalf of retired participants.

** Net OPEB Obligation (beginning of year) is -0- in the first year of implementation.

**WEXFORD COUNTY ROAD COMMISSION
OPEB BENEFITS**

SCHEDULE 1

ASSET (GAIN) OR LOSS

| | |
|--|-------------|
| 1 Fair value of Assets at end of year | \$ - |
| 2 Actual Distributions | \$ - |
| 3 Actual or Accrued contributions | \$ - |
| 4 Fair value at beginning of year | <u>\$ -</u> |
| 5 Actual return on Assets <i>(Line 1 + Line 2 - Line 3 - Line 4)</i> | \$ - |
| 6 Expected return on Assets <i>(Based on Interest Rate Assumption on Page II)</i> | <u>\$ -</u> |
| 7 Asset (gain) or loss = 6 - 5 <i>(An asset gain is shown as a negative number)</i> | \$ - |

As of the date of this reporting, the Plan had no assets set aside in Trust.

Table 1—Probability of Remaining Employed until Assumed Retirement Age, by Age—Default Values

| Age | Assumed Retirement Age | | | | | |
|-----|------------------------|-------|-------|-------|-------|-------|
| | 50 and over | 49 | 48 | 47 | 46 | 45 |
| 20 | 0.296 | 0.300 | 0.304 | 0.309 | 0.314 | 0.319 |
| 21 | 0.321 | 0.326 | 0.330 | 0.335 | 0.340 | 0.346 |
| 22 | 0.349 | 0.354 | 0.359 | 0.364 | 0.370 | 0.376 |
| 23 | 0.379 | 0.384 | 0.389 | 0.395 | 0.401 | 0.408 |
| 24 | 0.410 | 0.416 | 0.421 | 0.428 | 0.434 | 0.441 |
| 25 | 0.440 | 0.446 | 0.453 | 0.460 | 0.467 | 0.474 |
| 26 | 0.472 | 0.478 | 0.485 | 0.493 | 0.500 | 0.508 |
| 27 | 0.503 | 0.510 | 0.517 | 0.525 | 0.533 | 0.542 |
| 28 | 0.534 | 0.541 | 0.549 | 0.558 | 0.566 | 0.575 |
| 29 | 0.564 | 0.572 | 0.580 | 0.589 | 0.598 | 0.607 |
| 30 | 0.593 | 0.602 | 0.610 | 0.620 | 0.629 | 0.639 |
| 31 | 0.622 | 0.631 | 0.640 | 0.650 | 0.660 | 0.670 |
| 32 | 0.650 | 0.659 | 0.669 | 0.679 | 0.689 | 0.700 |
| 33 | 0.677 | 0.687 | 0.696 | 0.707 | 0.718 | 0.730 |
| 34 | 0.703 | 0.713 | 0.723 | 0.734 | 0.745 | 0.758 |
| 35 | 0.729 | 0.739 | 0.749 | 0.761 | 0.772 | 0.785 |
| 36 | 0.753 | 0.764 | 0.775 | 0.787 | 0.799 | 0.812 |
| 37 | 0.777 | 0.788 | 0.799 | 0.811 | 0.824 | 0.837 |
| 38 | 0.799 | 0.811 | 0.822 | 0.835 | 0.847 | 0.861 |
| 39 | 0.821 | 0.832 | 0.844 | 0.857 | 0.870 | 0.884 |
| 40 | 0.841 | 0.853 | 0.865 | 0.878 | 0.891 | 0.906 |
| 41 | 0.860 | 0.873 | 0.885 | 0.899 | 0.912 | 0.927 |
| 42 | 0.879 | 0.891 | 0.904 | 0.918 | 0.932 | 0.947 |
| 43 | 0.896 | 0.909 | 0.922 | 0.936 | 0.950 | 0.965 |
| 44 | 0.912 | 0.925 | 0.938 | 0.953 | 0.967 | 0.983 |
| 45 | 0.928 | 0.941 | 0.955 | 0.969 | 0.984 | 1.000 |
| 46 | 0.943 | 0.957 | 0.970 | 0.985 | 1.000 | 1.000 |
| 47 | 0.958 | 0.971 | 0.985 | 1.000 | 1.000 | 1.000 |
| 48 | 0.972 | 0.986 | 1.000 | 1.000 | 1.000 | 1.000 |
| 49 | 0.986 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 50 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 51 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 52 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 53 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 54 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 55 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 56 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 57 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 58 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 59 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 60 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 61 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 62 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 63 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 64 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 65 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 66 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 67 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 68 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 69 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 70 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 71 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 72 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 73 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 74 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 75 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |

Table 4

GASB Terms Defined

A brief glossary of terms commonly used by GASB practitioners, actuaries, and auditors.

Actuarial Accrued Liability (AAL): The value of OPEB benefits already earned by each eligible employee for that employee's past service. Also, the Actuarial Present Value of Total Projected Benefits not provided for by future normal costs.

Annual OPEB Cost: An accrual-basis measure of an employer's periodic cost of offering OPEB. It is the current period's ARC, plus any interest on the previous period's Net OPEB obligation, minus any adjustments necessary to the ARC.

Annual Required Contribution (ARC): The level of employer contribution that would be required on an ongoing basis to reduce the employer's net OPEB obligation to zero. The ARC has two components: 1) The normal cost and 2) the amortized amount of the UAAL for both active employees and retirees. In other words, it is the amount needed to pay benefits as they come due, as well as to amortize additional liability over a specified period (which cannot be more than 30 years.)

Employer Contributions: Contributions made for OPEB in relation to the ARC. An employer has made a contribution in relation to the ARC if the employer has:

- ❖ Made a payment of benefits directly to or on behalf of a retiree or beneficiary;
- ❖ Made premium payments to an insurer; or
- ❖ Irrevocably transferred assets to a trust in which plan assets are dedicated to providing benefits to retirees and/or beneficiaries. Assets that employers merely set aside for future benefits do not qualify as contributions for purposes of GASB 45.

Net OPEB Obligation (or asset): The difference arrived at by subtracting all employer contributions from the annual OPEB cost. The net OPEB obligation is reported as a liability (or asset) in the accrual-basis financial statements.

Normal Cost: That portion of the Actuarial Present Value that is allocated to each valuation year by an actuarial cost method. Under most actuarial methods, Normal cost can be thought of as the cost for OPEB being earned by employees in exchange for current service. Any employer with at least one OPEB-eligible employee will have a Normal cost each year.

Pay-As-You-Go: A method of financing an OPEB under which the contributions to the plan are generally made at about the same time and are equal to the amount of retiree benefit payments and expenses coming due. Employers that finance benefits on a pay-as-you-go basis typically make payments directly to a provider.

Plan Assets: Financial resources that have been segregated into a trust for the payment of benefits in accordance with the terms of the plan. Employer contributions to the trust are irrevocable, and assets are dedicated to providing benefits to retirees and their beneficiaries. Plan assets are also legally protected from creditors of the employer. Assets set aside by employers for OPEB, but not deposited in a trust, are considered *employer assets* and not Plan assets.

Plan Liabilities: Obligations payable by the plan at the reporting date. These obligations include benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

Unfunded Actuarial Accrued Liability (UAAL): The portion of the AAL over and above the Actuarial Value of Plan Assets. The UAAL is determined by three things: unfunded past Normal costs, actuarial gains and losses (differences between actuarial assumptions and actual experience), and changes to the amount of promised benefits.