

Southgate City Council Agenda

Council Chambers

Wednesday October 3, 2018

6:30pm

Work Study Session

1. Officials Reports
2. Discussions regarding agenda items.

7:00 pm

Regular Meeting

Pledge of Allegiance

Roll Call:

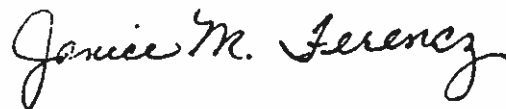
Colovos, Farrah, George, Graziani, Rauch, Rollet, Zamecki.

Minutes:

1. Work Study Session Minutes dated September 19, 2018.
2. Regular City Council Meeting Minutes dated September 19, 2018.

Scheduled Persons in the Audience:**Consideration of Bids:****Scheduled Hearings:****Communications "A" –**

- | | |
|---|---------|
| 1. Memo from ACA/Finance Director; Re: Corrective Action Plan – Southgate Municipal Employees Retiree Healthcare System (Act 202 of 2017) | Page 5 |
| 2. Memo from ACA/Finance Director; Re: Corrective Action Plan – Southgate Police & Fire Employees Retiree Healthcare System (Act 202 of 2017) | Page 46 |
| 3. Letter from Mayor; Re: Waiver of Bid – F550 Dump Truck Body | Page 87 |
| 4. Letter from Mayor; Re: Waiver of Bid – F550 Dump Truck Chassis Cab | Page 92 |
| 5. Letter from Mayor; Re: Bid letter for Purchase of computers through the Library Network | Page 96 |

Communications "B" – (Receive and File)**Ordinances:****Old Business:****New Business:****Unscheduled Persons in the Audience:****Claims & Accounts: Warrant #1362 See Warrant****Adjournment:**

Janice M. Ferencz, City Clerk

City Council

Work Study Session

September 19, 2018

An Informal Meeting of the Council of the City of Southgate was held on September 19, 2018 at 6:30 P.M. in the Council Chambers of the Municipal Building, 14400 Dix-Toledo Highway, Southgate, Michigan.

Present: Mark Farrah, Karen George, John Graziani, Phillip Rauch, Christopher Rollet, Dale Zamecki

Absent: Bill Colovos*, *excused

Also Present: Mayor Joseph G. Kuspa, City Administrator Dustin Lent, Assistant City Administrator/Finance Director David Angileri, City Attorney Brandon Fournier, City Engineer John Hennessey, City Clerk Jan Ferencz, City Treasurer Jim Dallos, Public Safety Director Jeff Smith, Police Chief Brett Selby, Fire Chief Mike Sypula, Building Inspections Director Bob Casanova, Director of Public Services Bob Tarabula and Parks and Recreation Director Julie Goddard.

Discussion took place on the following item scheduled for action at the regular meeting:

- Class C Liquor License Application for Taylor Capital Investments
- Appointment to Parks & Recreation Commission to fill vacancy

Update given on Fire Department Advance Life Support agreement.

Discussion on the City's updated website.

This meeting ended at 6:53 pm.

City of Southgate

Regular City Council Meeting

September 19, 2018

A Regular Meeting of the Council of the City of Southgate was held in the Municipal Council Chambers, 14400 Dix-Toledo Highway, Southgate, Michigan on Wednesday, September 19, 2018 and was called to order at 7:00 PM by Council President John Graziani.

This meeting began with the Pledge of Allegiance, followed by roll call.

Present: Mark Farrah, Karen George, John Graziani, Phillip Rauch, Christopher Rollet, Dale Zamecki

Absent: *Bill Colovos, *excused

Also Present: Mayor Joseph G. Kuspa, City Administrator Dustin Lent, Assistant City Administrator/Finance Director David Angileri, City Attorney Brandon Fournier, City Engineer John Hennessey, City Clerk Jan Ferencz, City Treasurer Jim Dallos, Director of Public Safety Jeff Smith, Police Chief Brett Selby, Fire Chief Mike Sypula, Building Inspections Director Bob Casanova, Director of Public Services Bob Tarabula and Parks & Recreation Director Julie Goddard.

Minutes:

Moved by Zamecki, supported by George, RESOLVED, that the minutes of the City Council Work Study Session dated September 5, 2018 be approved as presented. Carried unanimously.

Moved by Rauch, supported by Rollet, RESOLVED, that the minutes of the Regular City Council Meeting dated September 5, 2018 be approved as presented. Carried unanimously.

Communications "A":

1. Memo from Administrator; Re: Request for Class C Liquor License; Taylor Capital Investments, Inc., moved by Zamecki, supported by Rauch, RESOLVED that the Southgate City Council hereby concurs with the recommendation of the Administration and **AUTHORIZES** the issuance of a liquor license at 13571 Eureka Road, Southgate, MI 48195 with the following conditions:

- The applicant may not default on any City payments.
- The applicant may not transfer location of the license to another location without City approval.
- The applicant may not include the license in any sale of the business without City approval.

Motion carried unanimously.

Communications "B":

2. Letter from Mayor; Re: Appointment to Parks & Recreation Commission, moved by George, supported by Rollet, RESOLVED that the Southgate City Council receives and files the Communications B, appointing Diane Grabowski (17601 Orchard, Southgate, MI 48195) to the Parks & Recreation Commission for a term expiring April 2020 (filling the vacancy created by the resignation of Melissa Holzheuter).

Motion carried unanimously.

Regular City Council Meeting September 19, 2018

New Business:

City Administrator announced that the City is moving forward with the Fire Department becoming Advanced Life Support certified by January 2019.

Claims and Accounts:

Moved by Farrah, supported by Zamecki, RESOLVED, that Claims and Accounts be paid as outlined on Warrant #1361 in the amount of \$1,820,725.97.

Motion carried unanimously.

Adjournment:

Moved by Rollet, supported by Rauch, RESOLVED, that this Regular Meeting of the Southgate City Council be adjourned at 7:06 P.M. Carried unanimously.

John Graziani
Council President

Janice M. Ferencz
City Clerk

JOSEPH G. KUSPA
Mayor

JANICE M. FERENCZ
City Clerk

JAMES E. DALLOS
Treasurer



City of Southgate Celebrating 60 Years!

- CITY COUNCIL -

JOHN GRAZIANI
Council President

MARK FARRAH

SHERYL DENMAN

KAREN E. GEORGE


BILL COLOVOS

DALE W. ZAMECKI

PHILLIP J. RAUCH

MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: David Angileri, Assistant City Administrator/Finance Director 

DATE: September 26, 2018

RE: Corrective Action Plan Southgate Municipal Employees Retiree Healthcare System
(Act 202 of 2017)

Mayor and City Council:

Attached, please find the Michigan Department of Treasury's form # 5597 (Corrective Action Plan Retirement Health Benefit Plan): This is a new requirement as a result of the law passed this past December 2017.

We have discussed this during our Audit presentations and Budget Sessions. Similar to some of the newer GASB reporting requirements, this new report formalizes the City's position with the State. The threshold for the Retirement Health Benefit Plan is 40% funded. The System is at 8.8% funded or 31.2% under the threshold and is considered in underfunded status. The attached form #5597 will show that changes made to the **System Design** along with **Additional Funding** to be made this year along with a commitment for additional funding into the future by the employees and the City, the City expects to be at 40% funded by 2038.

City Council approval is here by requested.

If you have any questions regarding this new report, please contact me.

Protecting Local Government Retirement and Benefits Act Corrective Action Plan: Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

I. MUNICIPALITY INFORMATION

Local Unit Name: City of Southgate Six-Digit Muni Code: 822270
Retirement Health Benefit System Name: City of Southgate Municipal Employees Retiree Healthcare System
Contact Name (Administrative Officer): David Angileri
Title if not Administrative Officer: Assistant City Administrator/Finance Director
Email: dangileri@ci.southgate.mi.us Telephone: (734) 258-3017

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of the Act, this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the retirement healthcare systems will be less than 12% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

The completed plan must be submitted via email to Treasury at LocalRetirementReporting@michigan.gov for review by the Board. **If you have multiple underfunded retirement systems, you are required to complete separate plans and send a separate email for each underfunded system.** Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB

Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

- (i) Requiring cost sharing of premiums and sufficient copays.
- (ii) Capping employer costs.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTION OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command Officers Association and Internal Association of Firefighters** that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page 12 of the attached actuarial analysis that indicates the system is **40% funded as of June 30, 2017**.

Starting in 2005 through 2018 the City has actively negotiated changes to the Municipal union contracts. No Municipal Employee hired after 7/1/2008 has retirement healthcare in retirement. The City will provide a RHSA to which the City will contribute 2% per month. Also, during the last 10 years through negotiation the City has increased deductibles and prescription copays. Currently only 43 municipal employees are eligible for retirement healthcare going into the future and all current retirees over the age of 65 are on a Medicare supplement.

- ☒ **Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **\$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40% by 2022**. Please see page 10 of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.

The City has set aside over 2.7 million in a Municipal Employees Retire Health Care Trust Fund. The City Administration will make an \$84,000 contribution (\$2,000 per employee x 42 employees) to the Southgate Municipal Employees Retirement Healthcare Trust Fund for the 2018/19 fiscal year. Going forward the annual budget will include a yearly contribution of \$2,000 per employee.

- ☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicated on page 13.

Attached is a copy of the updated Actuarial Valuation dated August 15, 2018 (attached) that shows the Unfunded Actuarial Accrued Liability for Municipal Employees has fallen from \$30,063,301 to \$28,452,326, a decrease of over \$1.6 million or 5.4%. This is a result of changes made by the City over the last few years.

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement system as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with **summer 2018** contract negotiations, the local unit will seek revised collective bargaining agreements with the **Command Officers Association and Internal Association of Firefighters** to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system would be **40%** funded by **fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019**.*

During the spring 2018 contract negotiations, contract changes were made for employees to increase employee's co-payments and deductibles for healthcare. Also, all future retirees after 1/1/2019 will contribute 5% of the retirement health care for HMO and 20% for a PPO. These changes should result in an improvement to the system's funded ratio.

- ☒ **Additional Funding** – Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by **December 31, 2018**. The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by **December 31, 2018**. Additionally, beginning in fiscal year 2019, the local unit will contribute **\$500,000** annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.*

See above

- ☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *Beginning in **fiscal year 2019**, the local unit will begin amortizing the unfunded portion of the healthcare liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the health system to reach a funded status of **42%** by **2022** as shown in the attached actuarial analysis on page **13**.*

The City has used the pay-as you-go method since 1958. Currently the money in the Trust Fund grows without being used for current retirement healthcare cost. Assuming a \$2,000 per employee per year continued contribution along with the retiree's contribution (see above) along with other changes already made, the City expects to be at 40% funding by 2038.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for (insert local unit name) City of Southgate to make, at a minimum, the retiree premium payment, as well as the normal cost payments for all new hires (if applicable), for the retirement health benefit system according to your long-term budget forecast?

☒ Yes

☐ No

If No, Explain

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming convention: when attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention

Type of Document

☒ Attachment – I

This Corrective Action Plan (Required)

☒ Attachment – 1a

Documentation from the governing body approving this Corrective Action Plan (Required)

☒ Attachment – 2a

An actuarial projection, an actuarial valuation, or an internally developed analysis, which illustrates how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, ARC will be less than 12% of governmental fund revenues, as defined by the Act. (Required)

☐ Attachment – 3a

Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).

☐ Attachment – 4a

Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)

☐ Attachment – 5a

A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio

☐ Attachment – 6a

Other documentation, not categorized above

7. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the four corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the Corrective Action Plan Development: Best Practices and Strategies document.

Corrective Action Plan Criteria

Description

☐ Underfunded Status

Is there a description and adequate supporting documentation of how and when the retirement system will reach the 40% funded ratio? Or, if your local unit is a city, village, township, or county, how and when the ARC of all retirement healthcare systems will be less than 12 percent of governmental fund revenues?

☐ Reasonable Timeframe

Do the corrective actions address the underfunded status in a reasonable timeframe (see CAP criteria issued by the Board)?

☐ Legal and Feasible

Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included? Are the actions listed feasible?

☐ Affordability

Do the corrective action(s) listed allow the local unit to make the retiree healthcare premium payment, as well as normal cost payment for new hires now and into the future without additional changes to this corrective action plan?

8. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

I, Dustin Lent, as the government's administrative officer (insert title)
City Administrator (Ex: City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

I confirm to the best of my knowledge that because of the changes listed above, one of the following statements will occur:

- ☒ The Southgate Municipal Employees Retiree Health (Insert Retirement Healthcare System Name) will achieve a funded status of at least 40% by Fiscal Year 2038 as demonstrated by required supporting documentation listed in section 6.

OR, if the local unit is a city, village, township, or county:

- ☐ The ARC for all of the retirement healthcare systems of _____ (Insert local unit name) will be less than 12% of the local unit of government's annual governmental fund revenues by Fiscal Year _____ as demonstrated by required supporting documentation listed in section 6.

Signature

Dustin Lent

Date 09/27/2018

City of Southgate
Retiree Health Care Plan
Actuarial Valuation Report
as of June 30, 2017



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August 15, 2018

Mr. David Angileri, Finance Director
City of Southgate
Retiree Health Care Plan
14400 Dix-Toledo Road
Southgate, Michigan 48195

Dear Mr. Angileri:

Submitted in this report are the results of an Actuarial Valuation of the assets and liabilities associated with the employer financed retiree health benefits provided by the City of Southgate. The date of the valuation was June 30, 2017.

This report was prepared at the request of the City of Southgate and is intended for use by the City of Southgate and those designated or approved by the City of Southgate. This report may be provided to parties other than the City of Southgate only in its entirety and only with the permission of the City of Southgate. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the Plan's funding progress and to determine the Actuarially Computed Employer Contributions for the fiscal years ending June 30, 2019 and June 30, 2020. This report should not be relied on for any purpose other than the purposes described herein. Determinations of the liability associated with the benefits described in this report for purposes other than those identified above may be significantly different. This report does not satisfy Governmental Accounting Standards Board (GASB) Statement No. 74 or No. 75.

The findings in this report are based on data and other information through June 30, 2017. 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 scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

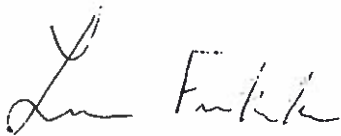
The valuation was based upon information furnished by the City of Southgate, concerning Retiree Health benefits, financial transactions, plan provisions and active members, retirees and beneficiaries. We checked for internal and year-to-year consistency with the last valuation, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the City of Southgate.

Mr. David Angileri
City of Southgate
August 15, 2018
Page 2

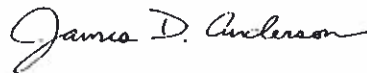
This report has been prepared by actuaries who have substantial experience valuing public employee retiree health plans. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the City of Southgate as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Laura Frankowiak and James D. Anderson 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 contained herein.

Respectfully submitted,



Laura Frankowiak, ASA, MAAA



James D. Anderson, FSA, EA, FCA, MAAA

LF/JDA:rmn



1. Die folgenden Aussagen sind Aussagen über die Aussagen A und B . Welche sind wahr, welche falsch? Begründen Sie Ihre Antwort! (10 Punkte)
 (a) $A \vee B$ ist wahr, wenn A wahr ist.
 (b) $A \wedge B$ ist wahr, wenn A und B beide wahr sind.
 (c) $A \rightarrow B$ ist wahr, wenn A wahr ist und B falsch ist.
 (d) $A \leftrightarrow B$ ist wahr, wenn A und B beide wahr oder beide falsch sind.
 (e) $\neg A$ ist wahr, wenn A falsch ist.
 (f) $A \vee \neg A$ ist wahr.
 (g) $A \wedge \neg A$ ist wahr.
 (h) $A \rightarrow A$ ist wahr.
 (i) $A \rightarrow B$ ist wahr, wenn B wahr ist.
 (j) $A \rightarrow B$ ist wahr, wenn A falsch ist.

Executive Summary

Actuarially Computed Employer Contribution

Please note that beginning with the fiscal year ending June 30, 2017, GASB Statement No. 43 was replaced by GASB Statement No. 74. Also, beginning with the fiscal year ending June 30, 2018, GASB Statement No. 45 will be replaced by GASB Statement No. 75. A separate GASB report will be required to comply with the actuarial requirements of GASB Statements No. 74 and No. 75 for the fiscal year ending June 30, 2018. As such, there is no longer an "Annual Required Contribution" calculated in this valuation report. Therefore, we have determined the "Actuarially Computed Employer Contribution."

We have calculated the Actuarially Computed Employer Contribution for the fiscal years ending June 30, 2019 and June 30, 2020, under an interest rate assumption of 3.56%. Below is a summary of the results. The Actuarially Computed Employer Contributions and estimated premiums shown below include an adjustment for any implicit rate subsidy.

For additional details please see the Section titled "Valuation Results."

Fiscal Year Ending	Actuarially Computed Employer Contribution	Estimated Claims and Premiums Paid for Retirees
June 30, 2019	\$7,025,212	\$2,552,628
June 30, 2020	7,039,817	2,742,869

Liabilities and Assets

1. Present Value of Future Benefit Payments	\$108,682,660
2. Actuarial Accrued Liability	82,947,627
3. Plan Assets	4,472,506
4. Unfunded Actuarial Accrued Liability (2) – (3)	78,475,121
5. Funded Ratio (3)/(2)	5.4%

The Present Value of Future Benefit Payments (PVFB) is the present value of all benefits projected to be paid from the plan for past and future service to current members. The Actuarial Accrued Liability is the portion of the PVFB allocated to past service by the Plan's funding method (see Section titled "Actuarial Cost Method and Actuarial Assumptions").

SECTION A

VALUATION RESULTS

City of Southgate – Results by Group as of June 30, 2017

Other Postemployment Benefit (OPEB) Group	Municipal	Police/Fire	Total
A. Present Value of Future Benefits			
i) Retirees and Beneficiaries	\$19,056,494	\$33,298,315	\$52,354,809
ii) Vested Terminated Members	0	0	0
iii) Active Members	<u>17,628,887</u>	<u>38,698,964</u>	<u>56,327,851</u>
Total Present Value of Future Benefits	36,685,381	71,997,279	108,682,660
B. Present Value of Future Normal Costs	5,493,954	20,241,079	25,735,033
C. Actuarial Accrued Liability (A.-B.)	31,191,427	51,756,200	82,947,627
D. Actuarial Value of Assets	2,739,101	1,733,405	4,472,506
E. Unfunded Actuarial Accrued Liability (C.-D.)	28,452,326	50,022,795	78,475,121
F. Funded Ratio (D./C.)	8.8%	3.4%	5.4%
G. Fiscal Year Ending June 30, 2019			
i) Employer Normal Cost	\$ 674,401	\$ 1,459,550	\$ 2,133,951
ii) Amortization of UAAL*	<u>2,048,230</u>	<u>2,843,031</u>	<u>4,891,261</u>
Actuarially Computed Employer Contribution	\$ 2,722,631	\$ 4,302,581	\$ 7,025,212
H. Fiscal Year Ending June 30, 2020			
Actuarially Computed Employer Contribution	\$ 2,696,758	\$ 4,343,059	\$ 7,039,817

* The Unfunded Actuarial Accrued Liabilities (UAAL) were amortized as a level dollar amount for Municipal over a closed period of 20 years and as a level dollar amount for Police/Fire over a closed period of 29 years for the fiscal year ending June 30, 2019 and decreasing by 1 each year thereafter.

The long-term rate of investment return used in this valuation is 3.56%.

Comments

COMMENT A: As a matter of course, liabilities and the resulting Actuarially Computed Employer Contributions will change from one valuation to the next. The net impact for the 2017 valuation was an overall decrease in total liability and an increase in resulting Actuarially Computed Employer Contributions for all groups. Factors contributing to the increases in liability and Actuarially Computed Employer Contributions include, but are not limited to:

- Decreasing the long-term rate of investment return from 4.00% to 3.56%. This update increased the total accrued liabilities by approximately \$5.4 million;
- Closing the Plan to new entrants for Police and Fire; and
- Resetting the health care trend cost rates.

Partially offsetting these factors were decreases due to:

- More favorable premiums and claims than projected; and
- Removal of the Excise Tax load to the liabilities to account for future excise taxes for Cadillac plans under the Patient Protection and Affordable Care Act (PPACA). The loads used in the June 30, 2015 valuation were:
 - Municipal Future Retirees: 2.50%
 - Municipal Current Retirees: 4.50%
 - Police/Fire Future Retirees: 3.50%
 - Police/Fire Current Retirees: 5.50%.

COMMENT B: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on the assets that will be used to pay plan benefits. Higher assumed investment returns will result in a lower Actuarially Computer Employer Contribution. Lower returns will tend to increase the Actuarially Computed Employer Contribution. We have calculated the liability and the resulting Actuarially Computed Employer Contribution using an assumed annual rate of investment return of 3.56%, the municipal bond rate. The long-term expected rate of return was set to the June 30, 2017 municipal bond rate on the basis of the investment policy. The investment return assumption should not exceed reasonable market expectations.

COMMENT C: The plan sponsor is required by GASB to perform actuarial valuations at least biennially unless there are significant changes in the OPEB.

COMMENT D: The Health Care Plan is closed to new members. Because of the closure of the Plan, payments of the unfunded accrued liability have been calculated as level dollar amounts for all groups.

COMMENT E: The contribution rates shown include amortization of the unfunded actuarial accrued liability over a closed 20-year period for Municipal and a closed 29-year period for Police/Fire beginning with the fiscal year ending June 30, 2019.

Comments

COMMENT F: 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, effective in 2022. The initial thresholds are \$10,200 for single coverage or \$27,500 for family coverage. 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 retiree costs is allowed and can keep plans under the thresholds for a longer period of time. For this valuation, there was no load applied to the health care liabilities to approximate the cost for future excise tax, based on the current plan provisions and assumptions. We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will review and monitor the impact.

COMMENT G: The GASB issued Statement Nos. 74 and 75 for OPEB valuations similar to the GASB 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 recently finalized GASB implementation guides for Statement Nos. 74 and 75 provide additional clarification related to the implementation of these Statements. It is our understanding that the City is required to comply with both GASB Statements No. 74 and No. 75 for the fiscal year ending June 30, 2018. The information necessary for GASB Statements No. 74 and No. 75 for the June 30, 2018 fiscal year end will need to be developed at a later date. The basis for the June 30, 2018 GASB information is expected to be this valuation (as of June 30, 2017), where roll-forward techniques will be applied.

COMMENT H: Michigan Public Act 202 of 2017 created new reporting and other requirements for local units of government. As such, we can work with the City of Southgate Retiree Health Care Plan to develop a funding policy to document Plan procedures and facilitate compliance.

COMMENT I: Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the market value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

- The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligations, and
- The measure is inappropriate for assessing the need for or the amount of future employer contributions.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

Retiree Premium Rate Development

Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The 6/1/2018 BCBS pre-65, 1/1/2018 BCBS Medicare Advantage Post-65, and 6/1/2018 BCN fully-insured medical rates provided by the City of Southgate were utilized to determine the appropriate premium rates. The BCBS 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 BCBS 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 rates included both medical and Rx and are used as the basis of the initial per capita cost without adjustments, since the rate reflects the demographics of the post-65 retiree group.

Since the pre-65 retiree self-insured drug claims data from Medtipster was not credible enough to develop separate per capita costs for the Police/Fire and Municipal groups, due to the lack of adequate exposure, the two groups were combined to develop the appropriate premium rate. In order to obtain Rx rates for the separate segments (Police/Fire and Municipal) each segment's individual experience was credibility weighed and blended with the combined experience.

Several of the post-65 suffixes are Medicare Advantage programs. In a Medicare Advantage Program, the liability is based on the difference between the present value of future claims minus the present value of future reimbursements from CMS. Each of these items will experience future growth under arguably differing forces. Recently announced changes to the Medicare Advantage Program will most likely result in decreases in the reimbursements from CMS within the next few years. This, in turn, will cause the net employer cost to trend upward at a rate above usual market trends for healthcare costs. When the plan is insured, this effect is buried in the rates being charged by the insurer. To account for this expectation, we have adjusted the Medicare rates to account for the expected CMS reimbursement lagging behind medical increases. This adjustment will be revisited at the time of the next valuation.

Age graded and sex distinct premiums are utilized by 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 premiums more accurately reflect the health care utilization and cost at that age.

Retiree Premium Rate Development

The combined monthly one-person medical and drug premiums at select ages are shown below. Note that we assumed everyone with medical coverage had the same members covered under the drug plan.

Municipal

Police/Fire

For Those Not Eligible for Medicare (Pre-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
40	\$ 332.32	\$ 540.00	\$ 332.32	\$ 540.00
50	538.69	663.61	538.69	663.61
60	915.53	901.48	915.53	901.48
64	1,113.30	1,050.66	1,113.30	1,050.66

For Those Not Eligible for Medicare (Pre-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
40	\$ 444.88	\$ 722.90	\$ 444.88	\$ 722.90
50	721.15	888.38	721.15	888.38
60	1,225.62	1,206.81	1,225.62	1,206.81
64	1,490.39	1,406.52	1,490.39	1,406.52

For Those Eligible for Medicare (Post-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
65	\$ 450.04	\$ 424.48	\$ 507.48	\$ 478.66
75	526.54	513.79	593.75	579.37
85	556.79	563.35	627.86	635.25

For Those Eligible for Medicare (Post-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
65	\$ 440.67	\$ 415.64	\$ 596.88	\$ 562.97
75	515.58	503.09	698.34	681.43
85	545.19	551.61	738.45	747.15

We have not "age graded" the dental premium rates for this valuation, since dental claims do not vary significantly by age. The monthly per member dental premium used in this valuation is \$37.11 for current Police and Fire retirees, \$29.78 for their spouses, \$25.51 for current Municipal retirees and \$20.67 for their spouses. The monthly per member dental premium used in this valuation is \$30.95 for future Police and Fire retirees, \$24.95 for their spouses, \$23.74 for future Municipal retirees and \$19.26 for their spouses.

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

SECTION C

SUMMARY OF BENEFITS

Summary of the Benefit Provisions for the Retiree Health Care Plan Municipal Employees Hired Prior to July 1, 2008

Group Name: Municipal

Leaving Employment as a Result of	Eligibility for Pension Benefit	Eligibility for Retiree Health Benefit (if different from pension benefit)	When do retiree health benefits commence?	Coverage Provided by Employer		Retiree Health Care Provider(s)	Type of Insurance	Retiree Share of Cost for		
				Retiree	Spouse			Retiree	Spouse (while Retiree is alive)	Spouse (after Retiree's death until re-marriage)
Normal Retirement (Unreduced pension benefits)	Age 50 with 25 or more years of service Age 55 with 10 or more years of service Sum of age plus years of service equal 80 or more	Same as pension	Immediately	Medical Prescription Dental Life Insurance	Medical Prescription Dental	BCBS, HAP Caremark Delta Dental	Fully-insured Self-insured Fully-insured	0% 0% Amount over \$500 Not Eligible*	0% 0% Amount over \$500 Not Eligible	0% 0% Amount over \$500 Not Eligible
Deferred Vested Termination	10 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Non-Duty Disability	10 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Duty Disability	No age or service requirements Must be in receipt of worker's compensation	Same as pension	Immediately	Medical Prescription Dental Life Insurance	Medical Prescription Dental	BCBS, HAP Caremark Delta Dental	Fully-insured Self-insured Fully-insured	0% 0% Amount over \$500 Not Eligible*	0% 0% Amount over \$500 Not Eligible	0% 0% Amount over \$500 Not Eligible
Non-Duty Death-In-Service	15 or more years of service Age 60 with 10 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Duty Death-In-Service	No age or service requirements Must be in receipt of worker's compensation	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible

* For certain existing retirees, the City pays for \$15,000 of life insurance coverage for retirees. Retiree life insurance is no longer provided for those retiring after 7/1/2013.

Other Provisions

Those who choose to opt-out of retiree health care receive no incentive from the City.
If a member retires and receives a pension, but does not meet the retiree health care provisions stated above, the retiree may not purchase retiree health care through the City.
Retirees pay for Medicare Part A and/or Part B premium with no reimbursement from the City. Retirees who are Medicare eligible are provided either a Medicare Advantage Plan or complementary coverage by the City.
Retiree Health Savings Account set up for employees hired after July 1, 2008. These new employees will not receive Health or Dental Insurance at retirement.



Summary of the Benefit Provisions for the Retiree Health Care Plan

Police/Fire Hired Prior to July 1, 2016

Group Name: Police and Fire

Leaving Employment as a result of	Eligibility for Pension Benefit	Eligibility for Retiree Health Benefit (if different from pension benefit)	When do retiree health benefits commence?	Coverage Provided by Employee		Retiree Health Care Provider(s)	Type of Insurance	Retiree Share of Cost for		
				Retiree	Spouse/Dependent*			Retiree	Spouse (while Retiree is alive)	Spouse (after Retiree's death until re-marriage)
Normal Retirement (Unreduced Pension Benefits)	Age 50 with 25 or more years of service Age 60 regardless of service	Age 50 with 25 or more years of service Age 60 regardless of service	Immediately	Medical Prescription Dental Life Insurance	Medical Prescription Dental Life Insurance	BOS, HAP Carenmark Delta Dental	Fully-Insured Self-Insured Fully-Insured	0% 0% Amount over \$500 Not Eligible*	0% 0% Amount over \$500 Not Eligible*	0% 0% Amount over \$500 Not Eligible*
Deferred Vested Termination	10 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Non-Duty Disability	Payable upon total and permanent disability of a member with 5 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Duty Disability	Payable upon total and permanent disability of a member in the line of duty	Same as pension	Immediately	Medical Prescription Dental Life Insurance	Medical Prescription Dental Life Insurance	BOS, HAP Carenmark Delta Dental	Fully-Insured Self-Insured Fully-Insured	0% 0% Not Eligible*	0% 0% Not Eligible*	0% 0% Not Eligible*
Non-Duty Death-in-Service	Payable to a surviving spouse, if any, upon the death of a member with 10 or more years of service	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
Duty Death-In-Service	Payable upon the expiration of worker's compensation to the survivors of a member who died in the line of duty	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible

* Dependents under the age of 19 or dependents up to the age of 25 if a full time college student and covered under HAP Insurance.

For certain retirees, the City pays for \$10,000 of life insurance coverage for retirees and \$10,000 of life insurance coverage for spouses - beneficiary retiree only. Retiree life insurance for spouses is no longer provided for those retiring after 7/1/2013. Retiree life insurance is no longer provided for those retiring after 7/1/2015.

Other Provisions

Those who choose to opt-out of retiree health care receive no incentive from the City. Currently there is 1 retiree opting-out of retiree health care. If a member retires and receives a pension, but does not meet the retiree health care provisions stated above, the retiree may not purchase retiree health care through the City. Members who retire after January 1, 2014 are required to enroll in Medicare Parts A and B; the retiree is responsible for premiums. The City will provide Supplemental Coverage. Members hired after 7/1/2016 are not eligible for retiree health insurance.

SECTION D

SUMMARY OF PARTICIPANT DATA

**City of Southgate – Total
Eligible Active Members as of June 30, 2017
by Age and Years of Service**

Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24	1							1
25-29	4	1						5
30-34	1	13	2					16
35-39	1	3	3	6				13
40-44			4	13	2			19
45-49			5	13	10			28
50-54		1	3	4	5	2		15
55-59			1	3	2			6
60-64				2				2
65 & Over						1		1
Totals	7	18	18	41	19	3		106

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

Age: 43.2 years
Service: 15.3 years

**City of Southgate - Municipal
Eligible Active Members as of June 30, 2017
by Age and Years of Service**

Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29								
30-34			1					1
35-39			2	4				6
40-44			2	3				5
45-49			3	10	2			15
50-54		1	2	4	1	1		9
55-59			1	3	2			6
60-64				2				2
65 & Over						1		1
Totals		1	11	26	5	2		45

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

Age: 48.6 years
Service: 17.8 years

**City of Southgate - Police/Fire
Eligible Active Members as of June 30, 2017
by Age and Years of Service**

Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24	1							1
25-29	4	1						5
30-34	1	13	1					15
35-39	1	3	1	2				7
40-44			2	10	2			14
45-49			2	3	8			13
50-54			1		4	1		6
55-59								
60-64								
65 & Over								
Totals	7	17	7	15	14	1		61

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

Age: 39.3 years
Service: 13.5 years

City of Southgate

Total Inactive Members as of June 30, 2017

by Age

Count of Retiree and Beneficiary Contracts^

	Opt-Out/ Ineligible	One-Person Coverage	Two-Person Coverage*	Total
Male	5	40	61	106
Female	13	37	15	65
Total	18	77	76	171

[^] Contract counts based on reported medical coverage only.

* Includes family coverage.

Age	Current Retirees		
	Number of Those Covered^		
	Municipal	Police/Fire	Total
0-44			
45-49	2	2	4
50-54	3	7	10
55-59	5	12	17
60-64	14	7	21
65-69	16	17	33
70-74	10	17	27
75-79	13	14	27
80-84	3	2	5
85-89	2	3	5
90-94	3	1	4
95 +			
Totals	71	82	153

[^] Contract counts based on reported medical coverage only.

There are 0 terminated members eligible for deferred plan benefits.

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

Actuarial Methods for City of Southgate as of June 30, 2017

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 Actuarial Cost Method** having the following characteristics:

- (i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is 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.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized as a level dollar amount since the divisions are closed to new hires. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date and projected to the beginning of the fiscal year at the assumed rate of investment return.

Actuarial Value Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

Amortization Factors. The following amortization factors were used in developing the Actuarially Computed Employer Contribution for the fiscal years shown:

Level Dollar	Fiscal Year Ending June 30,	
	2019	2020
Municipal	14.3857	13.8801
Police/Fire	18.2213	17.8522

Actuarial Assumptions for City of Southgate as of June 30, 2017

Assumption Rationale:

Municipal Members: Demographic assumptions were selected or affirmed for use in an experience study dated February 12, 2014 covering the 5-year period ending June 30, 2012.

Police and Fire Members: Demographic assumptions were selected or affirmed for use in an experience study dated September 9, 2016 covering the 5-year period ending June 30, 2014.

Other Assumptions were applied to both groups: Economic assumptions (price and base wage assumption) and Mortality assumptions based upon general conditions discussed in the September 9, 2016 report.

The assumed rate of investment return assumption: The long-term expected rate of return was set to the June 30, 2017 municipal bond rate on the basis of the investment policy.

The rate of investment return was 3.56% a year, compounded annually net after investment expenses.

Rates of price inflation are not specifically used for this valuation. A rate of price inflation of 2.75% was assumed.

The rates of salary increase used for individual members are in accordance with the following table.

Sample Ages	% Increase in Salary at Sample Ages				
	Merit and Seniority		Base (Economic)	Increase Next Year	
	Municipal	Police/Fire		Municipal	Police/Fire
20	7.6%	2.9%	3.5%	11.1%	6.4%
25	6.8%	2.3%	3.5%	10.3%	5.8%
30	4.0%	2.0%	3.5%	7.5%	5.5%
35	2.8%	1.8%	3.5%	6.3%	5.3%
40	1.9%	1.6%	3.5%	5.4%	5.1%
45	1.3%	1.3%	3.5%	4.8%	4.8%
50	0.9%	0.9%	3.5%	4.4%	4.4%
55	0.5%	0.5%	3.5%	4.0%	4.0%
60	0.0%	0.1%	3.5%	3.5%	3.6%
Ref	444	458	0.035		

Actuarial Assumptions for City of Southgate as of June 30, 2017

The rates of mortality used for individual members are in accordance with the following tables.

The same mortality tables are used for Municipal plan members and Police and Fire plan members. The **Post-Retirement Mortality** is the RP-2014 Healthy Annuitant Generational Mortality Tables, with blue collar adjustments and extended via cubic spline. The **Pre-Retirement Mortality** is the RP-2014 Employee Generational Mortality Tables, with blue collar adjustments and extended via cubic spline. The **Post-Retirement Disabled Mortality** is the RP-2014 Disabled Mortality Tables extended via cubic spline. All tables are adjusted backwards to 2006 with the MP-2014 scale. A base year of 2006 is utilized with future mortality improvements assumed each year using scale MP-2015.

Sample Attained Ages	Healthy Pre-Retirement Future Life Expectancy (Years)*		Healthy Post-Retirement Future Life Expectancy (Years)*		Disabled Retirement Future Life Expectancy (Years)*	
	Men	Women	Men	Women	Men	Women
55	30.39	35.57	29.20	32.11	22.07	25.88
60	25.54	30.57	24.63	27.36	18.99	22.26
65	20.99	25.66	20.29	22.78	15.99	18.67
70	16.80	20.88	16.23	18.43	13.06	15.15
75	12.97	16.33	12.54	14.42	10.32	11.93
80	9.58	12.06	9.34	10.88	7.90	9.17

* Based on retirements in 2017. Retirements in future years will reflect projected improvements in life expectancy.

For Police/Fire 95% of Pre-Retirement Deaths are assumed to be non-duty related and 5% are assumed to be duty related. For Municipal 100% of Pre-Retirement Deaths are assumed to be non-duty related and 0% are assumed to be duty related.

Actuarial Assumptions for City of Southgate as of June 30, 2017

Retirement Rates

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

Year Eligible to Retire	Municipal Percent
1	50%
2	30%
3	30%
4	30%
5	30%
6	30%
7	30%
8	30%
9	100%

Age	Percent
65	100%

Retirement Ages	Percent of Eligible Active Members Retiring within Next Year
	Police/Fire
50	50%
51	35
52	30
53	25
54	25
55	25
56	25
57	20
58	20
59	30
60	100
Ref	557

Actuarial Assumptions for City of Southgate as of June 30, 2017

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

Sample Ages	Service Index	Percent of Active Members Separating within Next Year			
		Municipal		Police/Fire	
		Males	Females	Males	Females
ALL	0	10.00%	10.00%	12.50%	12.50%
	1	8.00	8.00	8.50	8.50
	2	6.00	6.00	5.00	5.00
	3	4.00	4.00	3.00	3.00
	4	3.00	3.00	2.50	2.50
25	5 & Over	5.00	5.00	1.62	1.62
30		4.50	4.50	1.40	1.40
35		3.55	3.55	0.83	0.83
40		1.45	1.45	0.32	0.32
45		0.75	0.75	0.18	0.18
50		0.75	0.75	0.18	0.18
55		0.75	0.75	0.18	0.18
60		0.75	0.75	0.18	0.18
65		0.75	0.75	0.18	0.18
Ref		14	14	146	146
		#55x1	#55x1	#237x1	#237x1

Actuarial Assumptions for City of Southgate as of June 30, 2017

Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years. The assumed rates of disablement at various ages are shown below:

Sample Ages	Percent Becoming Disabled within Next Year			
	Municipal		Police/Fire	
	Males	Females	Males	Females
20	0.08%	0.10%	0.06%	0.06%
25	0.08	0.10	0.07	0.07
30	0.08	0.10	0.10	0.10
35	0.08	0.10	0.13	0.13
40	0.20	0.36	0.19	0.19
45	0.26	0.41	0.29	0.29
50	0.49	0.57	0.48	0.48
55	0.89	0.77	0.82	0.82
Ref	#9x1	#10x1	#256x1.25	#256x1.25

10% of the disabilities are assumed to be non-duty and 90% of the disabilities are assumed to be duty related for the Police/Fire plan and 100% are assumed to be non-duty related for the Municipal plan.

Actuarial Assumptions for City of Southgate as of June 30, 2017

Health care cost trend rates are displayed in the following table:

Year After Valuation	Health Care Trend Inflation Rates	
	Medical/Drug	Dental
1	9.00%	3.50%
2	8.25	3.50
3	7.50	3.50
4	6.75	3.50
5	6.25	3.50
6	5.75	3.50
7	5.25	3.50
8	4.75	3.50
9	4.25	3.50
10	3.50	3.50
11	3.50	3.50
12	3.50	3.50
13	3.50	3.50
14	3.50	3.50
15	3.50	3.50
16 +	3.50	3.50

Miscellaneous and Technical Assumptions for City of Southgate as of June 30, 2017

Administrative Expenses	No explicit assumption has been made for administrative expenses.
Decrement Operation	Disability and mortality decrements do not operate during the first five years of service. Disability also does not operate during retirement eligibility.
Decrement Timing	Decrements of all types are assumed to occur mid-year.
Eligibility Testing	Eligibility for benefits is determined using 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.
Marriage Assumption	100% of males and 100% of females are assumed to be married at time of decrement. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
Medicare Coverage	Assumed to be available for all future Municipal retirees and Police/Fire retirees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.
Life Insurance	Valued life insurance amounts as provided by the City in the data (current retirees only).
Health Care Coverage at Retirement	The table below shows the assumed portion of future retirees electing one-person or two-person/family coverage, or opting-out of coverage entirely.

	One-Person	Two-Person/Family		Opt-Out
		Electing	Continuing	
Municipal				
Male	40%	60%	100%	0%
Female	40%	60%	100%	0%
Police/Fire				
Male	20%	80%	100%	0%
Female	20%	80%	100%	0%

APPENDIX

Glossary

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.

Actuarially Computed Employer Contribution. The Actuarially Computed Employer Contribution is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The Actuarially Computed employer Contribution is an amount that is actuarially determined 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.

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.

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.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer's group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

Glossary

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 Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance, dental, vision, prescription drugs, life insurance 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 actuarial accrued liability."

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



August 15, 2018

Mr. David Angileri
Finance Director
City of Southgate
Retiree Health Care Plan
14400 Dix-Toledo Road
Southgate, Michigan 48195

Re: City of Southgate Retiree Health Care Plan

Dear Mr. Angileri:

Enclosed are six copies of our report of the actuarial valuation of the City of Southgate Retiree Health Care Plan.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Laura Frankowiak".

Laura Frankowiak, ASA, MAAA

LF:rmn
Enclosures



JOSEPH G. KUSPA
Mayor

JANICE M. FERENCZ
City Clerk

JAMES E. DALLOS
Treasurer



City of Southgate
Celebrating 60 Years!

- CITY COUNCIL -

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Council President

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PHILLIP J. RAUCH

MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: David Angileri, Assistant City Administrator/Finance Director 

DATE: September 26, 2018

RE: Corrective Action Plan Southgate Police and Fire Employees Retiree Healthcare System
(Act 202 of 2017)

Mayor and City Council:

Attached, please find the Michigan Department of Treasury's form # 5597 (Corrective Action Plan Retirement Health Benefit Plan): This is a new requirement as a result of the law passed this past December 2017.

We have discussed this during our Audit presentations and Budget Sessions. Similar to some of the newer GASB reporting requirements, this new report formalizes the City's position with the State. The threshold for the Retirement Health Benefit Plan is 40% funded. The System is at 3.4% funded or 36.6% under the threshold and is considered in underfunded status. The attached form #5597 will show that changes made to the **System Design** along with **Additional Funding** to be made this year along with a commitment for additional funding into the future by the employees and the City, the City expects to be at 40% funded by 2038.

City Council approval is here by requested.

If you have any questions regarding this new report, please contact me.

Protecting Local Government Retirement and Benefits Act

Corrective Action Plan:

Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

1. MUNICIPALITY INFORMATION

Local Unit Name: City of Southgate Six-Digit Muni Code: 822270
Retirement Health Benefit System Name: City of Southgate Police and Fire Retiree Healthcare System
Contact Name (Administrative Officer): David Angileri
Title if not Administrative Officer: Assistant City Administrator/Finance Director
Email: dangileri@ci.southgate.mi.us Telephone: (734) 258-3017

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of the Act, this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the retirement healthcare systems will be less than 12% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

The completed plan must be submitted via email to Treasury at LocalRetirementReporting@michigan.gov for review by the Board. **If you have multiple underfunded retirement systems, you are required to complete separate plans and send a separate email for each underfunded system.** Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB

Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

- (i) Requiring cost sharing of premiums and sufficient copays.
- (ii) Capping employer costs.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTION OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command Officers Association and Internal Association of Firefighters** that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page 12 of the attached actuarial analysis that indicates the system is **40% funded as of June 30, 2017**.*

Starting in 2005 through 2018 the City has actively negotiated changes to the Police and Fire union contracts. No Police or Fire Employee hired after 7/1/2016 has retirement healthcare in retirement. The City will provide a RHSA to which the City will contribute 2% per month. Also, during the last 10 years through negotiation the City has increased deductibles and prescription copays. Currently only 56 municipal employees are eligible for retirement healthcare going into the future and all current retirees over the age of 65 are on a Medicare supplement.

- ☒ **Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **\$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page 10 of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.*

The City has set aside over 1.7 million in a Police and Fire Employees Retire Health Care Trust Fund. The City Administration will make an \$112,000 contribution (\$2,000 per employee x 56 employees) to the Police and Fire Employees Retirement Healthcare Trust Fund for the 2018/19 fiscal year. Going forward the annual budget will include a yearly contribution of \$2,000 per employee.

- ☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicated on page 13.*

Attached is a copy of the updated Actuarial Valuation dated August 15, 2018 (attached) that shows the Unfunded Actuarial Accrued Liability for Police and Fire Employees has fallen from \$50,023,306 to \$50,022,795, a decrease of over \$511.00. This is a result of changes made by the City over the last few years.

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement system as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with **summer 2018** contract negotiations, the local unit will seek revised collective bargaining agreements with the **Command Officers Association** and **Internal Association of Firefighters** to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system would be **40%** funded by **fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019**.

During the spring 2018 contract negotiations, contract changes were made for employees to increase employee's co-payments and deductibles for healthcare. Also, all future fire retirees after 1/1/2020 will contribute 5% of the retirement health care for HMO and 20% for a PPO. These changes should result in an improvement to the system's funded ratio.

- ☒ **Additional Funding** – Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by **December 31, 2018**. The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by **December 31, 2018**. Additionally, beginning in fiscal year 2019, the local unit will contribute **\$500,000** annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.

See above

- ☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: Beginning in **fiscal year 2019**, the local unit will begin amortizing the unfunded portion of the healthcare liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the health system to reach a funded status of **42%** by **2022** as shown in the attached actuarial analysis on page **13**.

The City has used the pay-as you-go method since 1958. Currently the money in the Trust Fund grows without being used for current retirement healthcare cost. Assuming a \$2,000 per employee per year continued contribution along with the retiree's contribution (see above) along with other changes already made, the City expects to be at 40% funding by 2038.