



CITY OF WASHINGTON, ILLINOIS
City Council Agenda Communication

Meeting Date: November 15, 2021

Prepared By: Joanie Baxter, CPA – Finance Director *JB*

Agenda Item: Other Post-Employment Benefits (OPEB) Program –Valuation for Fiscal Year Ending April 30, 2021

Explanation: The City began funding our OPEB/Retiree Health Insurance liability on an annual basis in 2008. This funding was done pursuant to GASB 45 in which the potential liability was recorded in the footnotes of the financial statements and only the difference in the liability was recorded within the financial statements. With GASB 75, the full amount of the potential liability is required to be reflected in the financial statements, both the potential liability resulting from those retirees meeting eligibility for our Retiree Insurance under the same conditions as an active employee (explicit benefit), and those electing the IMRF or Police Pension continuation privilege (implicit benefit).

The funding the City has done in past years has been considered “pay as you go” since the funds are not part of a trust. City staff intends to continue researching this issue to see if establishing a trust would be feasible and cost effective for managing the assets and liabilities related to retiree health insurance.

Attached is the GASB 75 Report as prepared by Foster & Foster for the fiscal year ending April 30, 2021. An Annual Required Contribution (ARC) is no longer required by GASB 75 and thus the report does not indicate one. Instead, the retiree account will be funded in accordance with the annual premiums for retiree insurance of \$197,659.

Fiscal Impact: The funding reflected as a FY2020-21 expense of \$197,659.

Recommendation/Committee Discussion Summary: Staff recommends acceptance of the report.

Action Requested: Acceptance of report under the Consent Agenda.

**CITY OF WASHINGTON
OTHER POSTEMPLOYMENT BENEFITS PROGRAM**

**GASB 75 DISCLOSURE INFORMATION FOR THE
FISCAL YEAR ENDING APRIL 30, 2021**

Valuation Date: April 30, 2020
Measurement Date: April 30, 2020
Fiscal Year End Date: April 30, 2021



November 3, 2021

Ms. Joan Baxter
Finance Director
City of Washington
301 Walnut Street
Washington, IL 61571

Re: City of Washington – FYE April 30, 2021 GASB 75 Report

Dear Ms. Baxter:

We are pleased to present to the City this report of the annual actuarial valuation of the City of Washington's Other Postemployment Benefits (OPEB) Program. This valuation was performed to determine annual expenses associated with providing OPEB benefits, the current funded status of the Plan, and to provide all necessary schedules required to comply with the Governmental Accounting Standards Board No. 75. This valuation has been performed utilizing the Alternative Measurement Method for small plans as permitted under the Governmental Accounting Standards No. 75. **A summary of results by Division can be found in Appendix A.**

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: retiree group benefits plan experience differing from that anticipated by the assumptions; changes in 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); and changes in retiree group benefits plan provisions or applicable law. Retiree group benefits models necessarily rely on the use of approximations and estimates and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this report, we did not provide an analysis of these potential differences.

The funded status measurements included in this report are based on the assumptions and methods used to determine the Plan's obligations and asset values as of the Measurement Date. Funded status measurements for financial accounting purposes may not be appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations. Likewise, funded status measurements for financial accounting purposes may not be appropriate for assessing the need for or the amount of future actuarially determined contributions.

Foster & Foster does not provide legal, investment or accounting advice. Thus, the information in this report is not intended to supersede or supplant the advice or the interpretations of the City or its affiliated legal, investing or accounting partners.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and we believe it reflects all applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the City, represent reasonable expectations of anticipated plan experience.

In conducting the valuation, we have relied on personnel and plan design information supplied by City personnel, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. Because of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

The Total OPEB Liability and certain sensitivity information shown in this report are based on an actuarial valuation performed as of April 30, 2020. It is our opinion that the assumptions used for this purpose are internally consistent, reasonable, and comply with the requirements under GASB No. 75.

The undersigned is familiar with the immediate and long-term aspects of OPEB valuations and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All the sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Washington, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Commissioners of the City of Washington. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at 630-620-0200.

Respectfully submitted,

Foster & Foster, Inc.

By: Colleen M. Atchison
Colleen M. Atchison, FSA, MAAA

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SECTION 1 – Executive Summary

SECTION 1 – EXECUTIVE SUMMARY

The valuation results presented in this report have been prepared in accordance with the Government Accounting Standards Board Statement 75 (GASB 75) for the City of Washington's Other Postemployment Benefits (OPEB) Program, based on the actuarial valuation performed as of April 30, 2020. For purposes of this valuation, Medical and Dental Insurance OPEBs were taken into consideration. Premiums for any other insurances offered to retirees are assumed to cover the entire cost of the respective benefits.

The results of this valuation are based on a Measurement Date of April 30, 2020, and are applicable to the fiscal year ending April 30, 2021. The following table shows the key components of the City's OPEB valuation for the reporting period FY 2021 under GASB 75:

Total OPEB Liability as of the Measurement Date	\$	2,183,103
OPEB Expense For the Fiscal Year ending April 30, 2021	\$	(575,704)
Covered Employee Payroll	\$	4,274,811
City's Total OPEB Liability as a percentage of Covered Employee Payroll		51.07%

Census Information as of April 30, 2020:

Active Participants	57
Retirees, Beneficiaries, and Disabled Members	10
Covered Spouses	8
Total Participants	<hr/> 75

SECTION 1 – Executive Summary

City Funding Policy:

The numbers shown above reflect a decision not to fund the program. Therefore, the contributions made to the program are assumed to be the benefits paid to retirees and administrative expenses.

Governmental Accounting Standard No. 75:

GASB 75 requires governmental employers to recognize the Net OPEB Liability and the OPEB expense in their financial statements. GASB 75 is similar to GASB 68 for pensions. Under GASB 75, the Net OPEB Liability is the difference between the Total OPEB Liability (i.e. Actuarial Accrued Liability) and the Plan's Fiduciary Net Position (i.e. assets). For unfunded plans, the OPEB liability recorded on the employer's balance sheet is equal to the Total OPEB Liability.

The balance of this Report presents additional details of the actuarial valuation and the general operation of the Fund. The undersigned would be pleased to meet with the City to discuss the Report and any pending questions concerning its contents.

Respectfully submitted,
FOSTER & FOSTER, INC.

By: Colleen M. Atchison
Colleen M. Atchison, FSA, MAAA

SECTION 2 – Notes to Financial Statements

SECTION 2 – NOTES TO THE FINANCIAL STATEMENTS (For the Year Ended April 30, 2021)

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan Description:

The City of Washington's Retiree Health Care Plan (Plan) is a single-employer defined benefit post-employment health care plan that covers eligible retired employees of the City. The Plan, which is administered by the City, allows employees who retire and meet retirement eligibility requirements under the applicable retirement plan to continue medical insurance coverage as a participant in the City's plan. For purposes of applying Paragraph 4 under Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the Plan does not meet the requirements for an OPEB plan administered through a trust.

Employees Covered by Benefit Terms:

At April 30, 2020, the following employees were covered by the benefit terms:

Inactive Plan Members, or Beneficiaries Currently Receiving Benefits	10
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members	<u>57</u>
	<u>67</u>

Benefits Provided:

Eligible retirees participating in the group insurance plans offered by the City and are required to contribute a portion of the active premiums. At April 30, 2020, the retiree's portion of coverage is \$170/month for family and \$81/month for single after a wellness incentive premium reduction of \$50/month. Additionally, the City pays 100% of the retiree premium for dental insurance coverage for eligible retirees. Retirees ineligible for this benefit must pay 100% of the active premium for medical and/or dental insurance to remain covered by the plan. See section 8 for eligibility requirements.

SECTION 2 – Notes to Financial Statements

TOTAL OPEB LIABILITY

The measurement date is April 30, 2020.
The measurement period for the OPEB expense was May 1, 2019 to April 30, 2020.
The reporting period is May 1, 2020 through April 30, 2021.

The City’s Total OPEB Liability was measured as of April 30, 2020.

Actuarial Assumptions:

The Total OPEB Liability was determined by an actuarial valuation as of April 30, 2020, using the following actuarial assumptions:

Inflation Rate	2.50%
Salary Increase Rate(s)	2.50%
Discount Rate	2.85%
Initial Trend Rate	7.00%
Ultimate Trend Rate	4.00%
Years to Ultimate	54

For Police, mortality rates are PubS-2010 Mortality Tables projected to the valuation date using Projection Scale MP-2020.

For all other lives, mortality rates are PubG-2010 Mortality Tables projected to the valuation date using Projection Scale MP-2020.

Discount Rate:

Given the City’s decision not to fund the program, all future benefit payments were discounted using a high-quality municipal bond rate of 2.85%. The high-quality municipal bond rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as published by S&P Dow Jones Indices nearest the measurement date. The S&P Municipal 20 Year High Grade Rate Index consists of bonds in the S&P Municipal Bond Index with a maturity of 20 years. Eligible bonds must be rated at least AA by Standard and Poor’s Ratings Services, Aa2 by Moody’s or AA by Fitch. If there are multiple ratings, the lowest rating is used.

OPEB Expense:

For the year ended April 30, 2021, the City will recognize OPEB Expense/(Revenue) of \$(575,704).

SECTION 2 – Notes to Financial Statements

CHANGES IN TOTAL OPEB LIABILITY

	Increases and (Decreases) in Total OPEB Liability
Reporting Period Ending April 30, 2020	\$ 3,131,949
Changes for the Year:	
Service Cost	65,835
Interest	96,731
Differences Between Expected and Actual Experience	(250,210)
Changes of Assumptions	(489,560)
Changes of Benefit Terms	-
Contributions - Employer	-
Benefit Payments	(371,642)
Other Changes	-
Net Changes	(948,846)
Reporting Period Ending April 30, 2021	\$ 2,183,103

Changes of assumptions reflect a change in the discount rate from 3.21% for the fiscal year ending April 30, 2020, to 2.85% for the fiscal year ending April 30, 2021. Also reflected as assumption changes are updated mortality rates, updated health care costs and premiums, and updated health care cost trend rates.

Sensitivity of the Total OPEB Liability to changes in the Discount Rate:

The following presents the Total OPEB Liability of the City, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease 1.85%	Current Discount Rate 2.85%	1% Increase 3.85%
Total OPEB Liability (Asset)	\$ 2,313,158	\$ 2,183,103	\$ 2,064,652

Sensitivity of the Total OPEB Liability to changes in the Healthcare Cost Trend Rates:

The following presents the Total OPEB Liability of the City, as well as what the City's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 3.00% - 6.50%	Healthcare Cost Trend Rates 4.00% - 7.50%	1% Increase 5.00% - 8.50%
Total OPEB Liability (Asset)	\$ 2,052,530	\$ 2,183,103	\$ 2,331,574

SECTION 3 – GASB 75 Disclosure Schedules

SECTION 3 – GASB 75 DISCLOSURE SCHEDULES

SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Reporting Period Ending Measurement Date	04/30/2021 04/30/2020	04/30/2020 04/30/2019
Total OPEB Liability		
Service Cost	\$ 65,835	\$ 56,394
Interest	96,731	120,504
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(250,210)	-
Changes of Assumptions	(489,560)	149,019
Benefit Payments	(371,642)	(342,527)
Net Change in Total OPEB Liability	(948,846)	(16,610)
Total OPEB Liability - Beginning	3,131,949	3,148,559
Total OPEB Liability - Ending	<u>\$ 2,183,103</u>	<u>\$ 3,131,949</u>
 Covered Employee Payroll	 4,274,811	 3,873,283
 City's Total OPEB Liability as a Percentage of Covered Employee Payroll	 51.07%	 80.86%

Notes to Schedule:

Changes of assumptions:

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Fiscal Year Ending April 30, 2021:	2.85%
Fiscal Year Ending April 30, 2020:	3.21%
Fiscal Year Ending April 30, 2019:	3.97%

Also reflected as assumption changes are updated mortality rates, updated health care costs and premiums, and updated health care cost trend rates.

Benefit Payments:

The plan sponsor did not provide actual net benefits paid by the Plan for the fiscal year ending on April 30, 2021. Expected net benefit payments produced by the valuation model for the same period are shown in the table above.

SECTION 4 – GASB 75 Expense Development Schedules

SECTION 4 – GASB 75 EXPENSE DEVELOPMENT SCHEDULES

The following information is not required to be disclosed under GASB 75 but is provided for informational purposes.

SECTION 4 – GASB 75 Expense Development Schedules

COMPONENTS OF OPEB EXPENSE

(For the Year Ended April 30, 2021)

Under GASB 75 as it applies to plans that qualify for the Alternative Measurement Method, changes in the Total OPEB Liability are not permitted to be included in deferred outflows of resources or deferred inflows of resources related to OPEB. These changes will be immediately recognized through OPEB Expense.

Fiscal Year Ending	4/30/2021
Service Cost	\$ 65,835
Interest	96,731
Recognition of Changes in Total OPEB Liability	(739,770)
Administrative Expenses	\$1,500
Total OPEB Expense	<u>\$ (575,704)</u>

On April 30, 2021, the City's reported Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	N/A	N/A
Changes of Assumptions	N/A	N/A
Employer Contributions Subsequent to the Measurement Date	252,703	-
Total	<u>\$ 252,703</u>	<u>\$ -</u>

SECTION 5 – Per Capita Claims Costs and Contribution Amounts

SECTION 5 – PER CAPITA CLAIMS COSTS AND CONTRIBUTION AMOUNTS

The annual per capita claims costs shown below are based on active group health premiums, with adjustments for aging and other considerations using the methods applicable to the Alternative Measurement Method (AMM) described in GASB 75.

Please note that the annual per capita claims cost produced by the AMM is based on streamlined calculation techniques, and these estimates are intended to provide an “order of magnitude” indication of the Total OPEB Liability’s (TOL) sensitivity to changes in these costs. Results based on more refined claims cost estimates may yield findings and conclusions different than those suggested by the AMM methodology prescribed by the plan sponsor for the purposes of measuring the Plan’s TOL as of April 30, 2021. Moreover, future claims experience may differ significantly from the cost estimates presented in this report due to unforeseen and random events. As such, these results should be viewed as having a likely range of variability.

2020-2021 Per Capita Annual Benefit Costs Per Participant

Program	Pre 65 Cost	Post 65 Cost
Medical Insurance	\$11,560	N/A

2020-2021 Annual Premium Amounts Per Participant

Program	Employee Contribution	Spouse Contribution
Medical Insurance	\$8,665	\$14,123
Dental Insurance	\$496	\$487

Premiums are those in effect as of July 1, 2021 adjusted to the valuation date using applicable health care cost trend rates.

SECTION 6 – Member Statistics

SECTION 6 – MEMBER STATISTICS

STATISTICAL DATA

	<u>4/30/2020</u>
Number of Active Participants	57
Average Current Age	43.1
Average Age at Employment	33.2
Average Past Service	9.9
Covered Employee Payroll at Valuation Date	\$ 4,274,811
Average Salary	\$ 74,997
Number of Inactives Receiving Benefits	
Retirees, Beneficiaries, and Disabled Members	10
Covered Spouses	8
Total	<u>18</u>
Average Current Ages	
Retirees, Beneficiaries, and Disabled Members	62.4
Covered Spouses	60.6
All Inactives	61.6

SECTION 6 – Member Statistics

AGE AND SERVICE DISTRIBUTION

AGE	TOTAL PAST SERVICE										Total
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
<25	1	0	0	0	0	0	0	0	0	0	1
25 - 29	1	3	1	0	0	0	0	0	0	0	5
30 - 34	1	1	4	2	0	0	0	0	0	0	8
35 - 39	2	5	3	3	0	0	0	0	0	0	13
40 - 44	0	1	2	4	0	0	0	0	0	0	7
45 - 49	0	0	1	3	0	1	0	0	0	0	5
50 - 54	0	0	0	1	2	1	1	0	0	0	5
55 - 59	0	1	2	0	0	2	1	0	0	0	6
60 - 64	0	0	1	1	0	2	1	1	0	0	6
65+	0	1	0	0	0	0	0	0	0	0	1
Total	5	12	14	14	2	6	3	1	0	0	57

SECTION 7 – Actuarial Assumptions and Funding Methods

SECTION 7 – ACTUARIAL ASSUMPTIONS AND FUNDING METHODS

ACTUARIAL ASSUMPTIONS

<u>Valuation Date</u>	April 30, 2020.
<u>Measurement Date</u>	April 30, 2020.
<u>Fiscal Year End</u>	April 30, 2021.
<u>Actuarial Value of Assets</u>	Market Value.
<u>Mortality Rate</u>	Pub-2010 Mortality Tables projected to the valuation date using MP-2020.
<u>Discount Rate</u>	2.85%. Based on the April 30, 2020 S&P Municipal Bond 20 Year High Grade Rate Index as published by S&P Dow Jones Indices.
<u>Retirement Rates</u>	100% at age 54 for Police Employees 100% at age 60 for IMRF Employees
<u>Inflation</u>	2.50% per year.
<u>Salary Increase Rate</u>	2.50% per year.
<u>Marital Status</u>	100% assumed married, with male spouses 3 years older than female spouses.
<u>Health Care Participation</u>	100% of active employees eligible for explicit benefits are assumed to maintain benefit coverage after retirement 20% of active employees ineligible for explicit benefits are assumed to maintain benefit coverage after retirement
<u>Dental Participation</u>	100% of active employees eligible for explicit benefits are assumed to maintain benefit coverage after retirement 0% of active employees ineligible for explicit benefits are assumed to maintain benefit coverage after retirement

SECTION 7 – Actuarial Assumptions and Funding Methods

Health Care Inflation

Initial rate of 7.00% in fiscal 2021, then 7.50% in fiscal 2022, grading down to the ultimate trend rate of 4.00% in fiscal 2075. Sample rates below:

Fiscal Year	Rate
2021	7.00%
2022	7.50%
2023	7.25%
2024	7.00%
2025	6.75%
2026	6.50%
2027	6.25%
2028	6.00%
2029	5.75%
2030	5.50%
2031-2052	5.25%
2053-2060	5.00%
2061-2067	4.75%
2068-2071	4.50%
2072-2074	4.25%
2075+	4.00%

Dental Care Inflation

3.00% per year.

Termination Rates

Selected rates for various ages listed below:

Age	% Remaining Employed Until Assumed Retirement Age
20	29.60%
30	59.30%
40	84.10%
50	100.00%

Disability Rates

None Assumed.

GASB 75 Measurement Method

Alternative Measurement Method, as described in Governmental Accounting Standards Board No. 75 for plans with fewer than 100 covered members.

Funding Method

Entry Age Cost Method (Level % of Pay).

SECTION 8 – Summary of Plan Provisions

SECTION 8 – SUMMARY OF PLAN PROVISIONS

<u>Credited Service</u>	Total completed years of employment with the City.
<u>Eligibility for Insurance Coverage</u>	Retirees need to be at least 55 years old, have combined age and years of service of at least 80, and have been hired by the City before August 1, 1998 to receive health subsidy from the City. Otherwise, must meet retirement eligibility under one of the pension plans.
<u>Health Contributions</u> Employee	Retirees who meet special eligibility provisions above: \$170/month for family coverage, and \$81/month for single coverage with wellness reduction. Additional \$50/month without wellness reduction. Otherwise, 100% of active premium.
City	Remaining amount necessary for payment of claims
<u>Dental Contributions</u> Employee	Retirees who meet special eligibility provisions above: 0% of active premium. Otherwise, 100% of active premium.
City	Remaining amount necessary for payment of claims

APPENDIX A – Summary of Results by Division

APPENDIX A – SUMMARY OF RESULTS BY DIVISION

City of Washington

GASB 75 Summary for the Reporting Period Ending April 30, 2021

Division	FY 2021 Service Cost	As of End of Reporting Period			FY 2021 GASB 75	FY 2021 Expected	As of April 30, 2020		
		Active Liability	Retiree Liability	Total Liability	OPEB Expense	Benefit Payments	Active Count	Retiree Count	Total Count
Laborer's Union	23,701	288,507	496,205	784,712	(207,253)	89,713	22	7	29
Non - Union	24,359	573,849	233,564	807,413	(213,011)	92,205	13	1	14
Police	17,775	576,015	14,963	590,978	(155,440)	67,285	22	2	24
Total	65,835	1,438,371	744,732	2,183,103	(575,704)	249,203	57	10	67