

KALAMAZOO COUNTY

RETIREE HEALTH CARE PLAN



In the Pursuit of Extraordinary Governance...

**Summary Annual Report
2017**



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2017 SUMMARY ANNUAL REPORT

ABOUT THE KALAMAZOO COUNTY RETIREE HEALTH CARE PLAN

This summary annual report is in compliance with Public Act 202 of 2017. The contents came from the Kalamazoo County Retiree Health Care Plan's Financial Statements and Requirement Supplementary Information, Annual Actuarial Valuation and additional analysis as of December 31, 2017.

The Kalamazoo County Retiree Health Care Plan was established by the Kalamazoo County Board of Commissioners and is administered by the Kalamazoo County Retiree Health Trust. The trustees include the County Finance Director, Human Resource Director, Treasurer and a representative from Kalamazoo Community Mental Health and Substance Abuse Services (Authority) and the Kalamazoo County Road Commission (Road Commission).

Investment of the assets of the Plan has been delegated to the Retirement Investment Committee. This committee also manages the investments for the Kalamazoo County Employees Retirement System and consists of citizens who have extensive knowledge and background in the investment and management field, access to the national money managers employed by the Retirement System, and no business or political ties to the County, the Road Commission, Community Mental Health, or to the Plan.

The Kalamazoo County Board of Commissioners controls the Plan and approves changes to the Retiree Health Trust document (Plan Document). For Road Commission employees, the County Road Commission recommends changes to the County Board. For the Authority employees, the Authority Board recommends changes to the County Board.

A Master Trustee, State Street Corporation, Boston, Massachusetts, acts as custodian for investments and as a control and monitoring point for the performance and procedures of the managers. In this way, envisioning an organizational chart, the control over the Retirement System's assets is as follows:

- County Board of Commissioners
- Retirement Investment Committee
- State Street Corporation
- Individual Money Managers

From the County Board of Commissioners' monitoring of procedures to the four managers, performances and control flows from one level to the next.

KALAMAZOO COUNTY RETIREE HEALTH CARE PLAN SERVICE PROVIDERS

A service provider is an individual, third-party agent or consultant, or other entity that received direct or indirect compensation for consulting, investment management, brokerage, custody or other services related to the Plan. The Plan uses the following for professional services:

Nulty Insurance Agency – Insurance Brokerage & Consulting Services
Blue Cross Blue Shield of Michigan – Health Care Claims Administration

Clark Hill PLC – Legal Services
 Gabriel Roeder Smith – Actuarial Services
 Merion Capital – Consulting Services
 Rehmann Robson – Auditing Services
 State Street Bank – Custodial Services

Based upon the review and recommendations of the Retirement Investment Committee, the Plan's assets are invested with Blackrock Institutional Trust Company, N.A., Dimensional Fund Advisors, INC (DFA), Jennison Associates, LLC, RREEF America REIT II, Inc., and Vanguard.

MEMBERSHIP

County policy established that retiring employees, who terminate employment after becoming eligible for immediate commencement of retirement benefits from the County, shall be eligible for group health insurance. Active participants of the FOP defined contribution plan are eligible under the terms of their collective bargaining agreement. Changes are made through collective bargaining. All other retiring employees reach eligibility based on hire date, years of retirement plan, credited service and age at retirement. The Retiree Health Care Plan is closed to new members except for FOP. The Plan's membership as of the most recent annual actuarial valuation consisted of the following:

December 31, 2017				
	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	402	40	46	488
Nonvested participants	646	34	115	795
Total membership	1,048	74	161	1,283

ELIGIBILITY AND BENEFITS PROVIDED

Employees hired on or before December 31, 2008 are eligible at age 55 with at least 8 years of service. Employees hired on or after January 1, 2009 are eligible at age 60 with at least 8 years of service. Employees hired on or after January 1, 2010 are eligible at age 60 with at least 8 years of service until they reach the age of 65. For employees hired on or before December 31, 2009, at age 65 the County will provide only supplemental insurance coverage. For employees hired on or after January 1, 2010, at age 65 the County will provide the retiree the opportunity to purchase supplemental coverage with the retiree responsible for 100% of the cost. A retiree and his/her covered dependents must obtain Medicare Parts A & B at the earliest date eligible. For employees hired on or after January 1, 2012, the County will not provide retiree health insurance. These benefits are established and can be amended by the County Board of Commissioners.

The Plan administers a self-insured health plan for pre-65 benefits. An illustrative rate is developed on a plan-wide basis using paid medical and prescription drug claims experience. For post-65 retirees, fully-insured premium rates are paid. The Plan funds pay no more than 80% of the illustrative and/or premium rates. The Retirant's share is not less than 20% and can be higher based on years of service. Benefit payments totaled \$2,942,769 for 2017.

ASSETS & LIABILITIES

Total assets as of December 31, 2017 were \$18,550,068 and were comprised mostly of cash and investments. Liabilities totaled \$936,780 resulting in an increase in net position of \$4,730,600 between 2016 and 2017.

Statement of Fiduciary Net Position		
	As of December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$2,175,700	\$1,566,975
Investments, at fair value:		
U.S. government securities	2,093,934	1,388,814
U.S. agency securities	407,689	275,486
Corporate obligations and mortgage-back funds	1,105,524	792,101
Foreign corporate obligations	198,766	165,235
Mortgage-backed funds	98,418	124,349
Domestic equity mutual funds/collective trust funds	8,121,116	5,821,250
Emerging market mutual funds	1,658,435	1,134,240
International equity mutual funds	1,632,181	1,152,004
Real estate investment trust	390,576	224,708
Real estate pooled separate account	416,232	339,325
Receivables:		
Sale of investments	153,472	29,672
Interest and dividends	26,020	18,644
Employer contributions	0	0
Other	72,005	46,411
Prepays		158,064
Total Assets	18,550,068	13,237,278
Liabilities		
Accounts payable	83,690	5,008
Benefits payable	127,418	138,792
Purchase of investments	725,672	210,790
Total liabilities	936,780	354,590
Net position restricted for pension benefits	\$17,613,288	\$12,882,688

ADDITIONS AND DEDUCTIONS

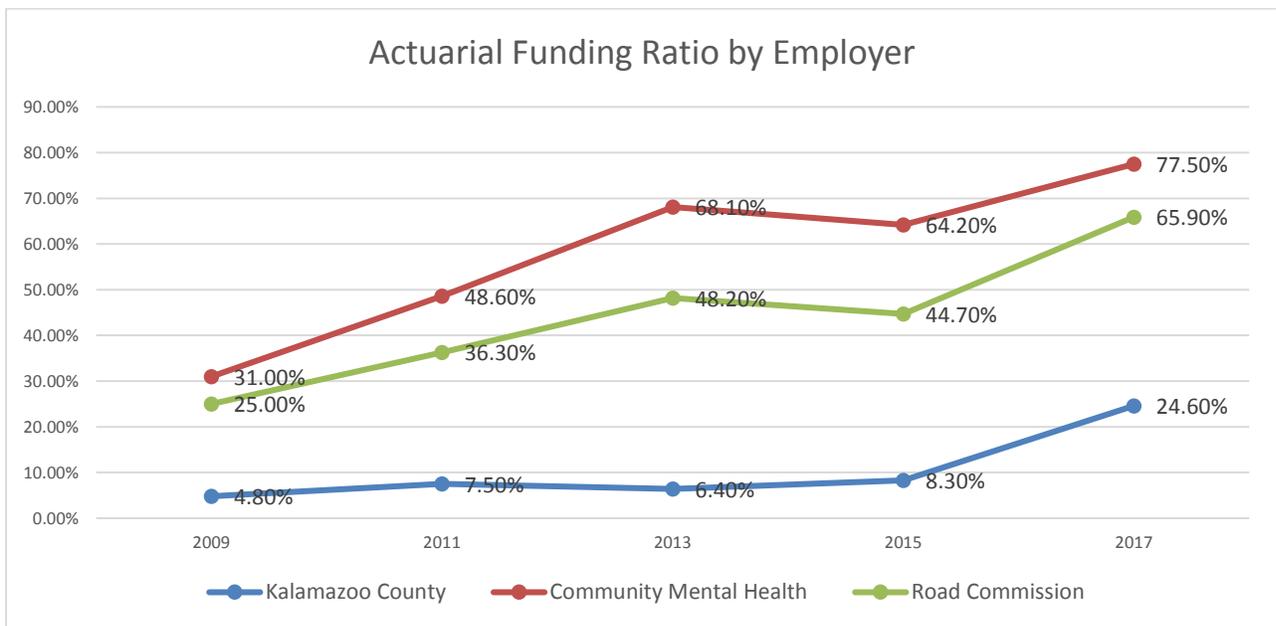
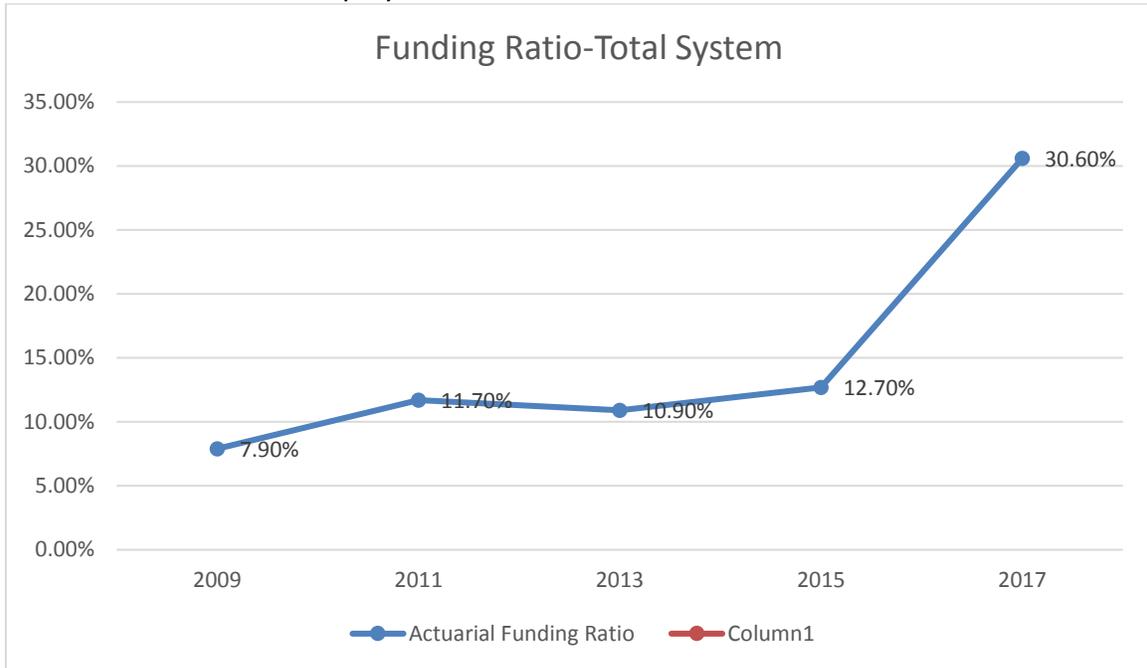
The reserves needed to finance the plan are accumulated through the collection of employer contributions and earnings on investments. Contributions and net investment income totaled \$7,822,187 for 2017.

Statement of Changes in Fiduciary Net Position		
	For the Year Ending December 31,	
	2017	2016
Additions		
Contributions:		
Employer	\$5,769,169	\$4,092,175
Employee	-	-
Total contributions	5,769,169	4,092,175
Investment income		
Net appreciation (depreciation) in fair value of investments	1,487,329	853,618
Income on mutual funds	333,666	219,812
Interest and dividends	78,650	61,046
Income on real estate pooled separate account	13,600	9,113
Other	187,933	0
Total investment income (loss)	2,101,178	1,143,589
Investment expense	(48,160)	(37,051)
Net investment income (loss)	2,053,018	1,106,538
Total additions	7,822,187	5,198,713
Deductions		
Benefit payments	2,942,769	3,014,308
Administrative expenses	148,818	328,501
Total Deductions	3,091,587	3,342,809
Change in net position	4,730,600	1,855,904
Net position, beginning of year	12,882,688	11,026,784
Net position, end of year	\$17,613,288	\$12,882,688

ACTUARIAL FUNDED RATIO

The Actuarial Funded Ratio compares the Plan's assets to its actuarial accrued liability and is used to measure the funded status of the Plan. The Present Value of Future Benefit (PVFB) payments is the present value of all benefits projected to be paid from the plan for past and

future service. The actuarial accrued liability is the portion of the PVGB allocated to past service by the Plan's funding method. The tables below present the normal cost ratios for the Plan in total as well as the employers in the Plan.



INVESTMENT PHILOSOPHY & INVESTMENT RETURN

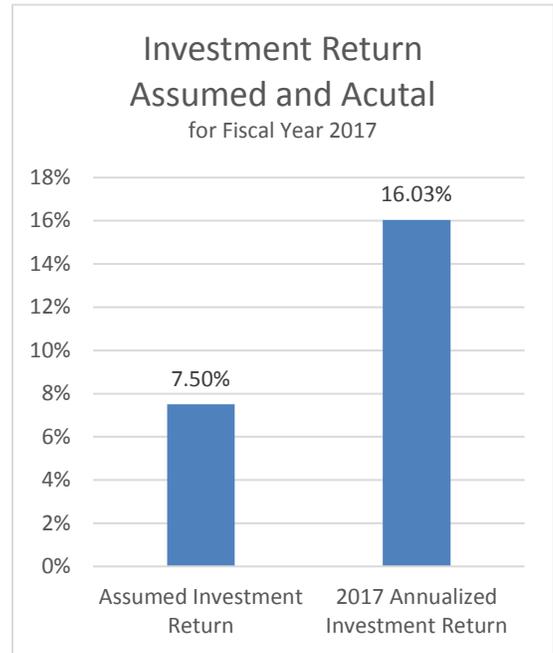
The Kalamazoo County Retirement Investment Committee administers all of the System's investments in accordance with the State of Michigan Public Act 307 of 2000, as amended, and the Retirement System's Investment Policy as approved by the County Board of Commissioners. The Retirement Investment Committee's goal is to find a balance or mix between the extremes, i.e., a philosophy that would prudently meet the objectives of properly funding present and

future payments to participants. The present policy is seventy (70.00%) percent of Plan assets at market can be invested in corporate equities and five (5.00%) percent in real estate, which are the maximums allowed by State law.

When investments exceed the assumed rates of return, as they did in 2017, this results in a gain for the system. The actual rate of investment return in FY 2017 was 16.03% which is greater than the assumed rate of return.

Actual investment performance is reviewed and reported quarterly to the Retirement Investment Committee and is summarized as follows:

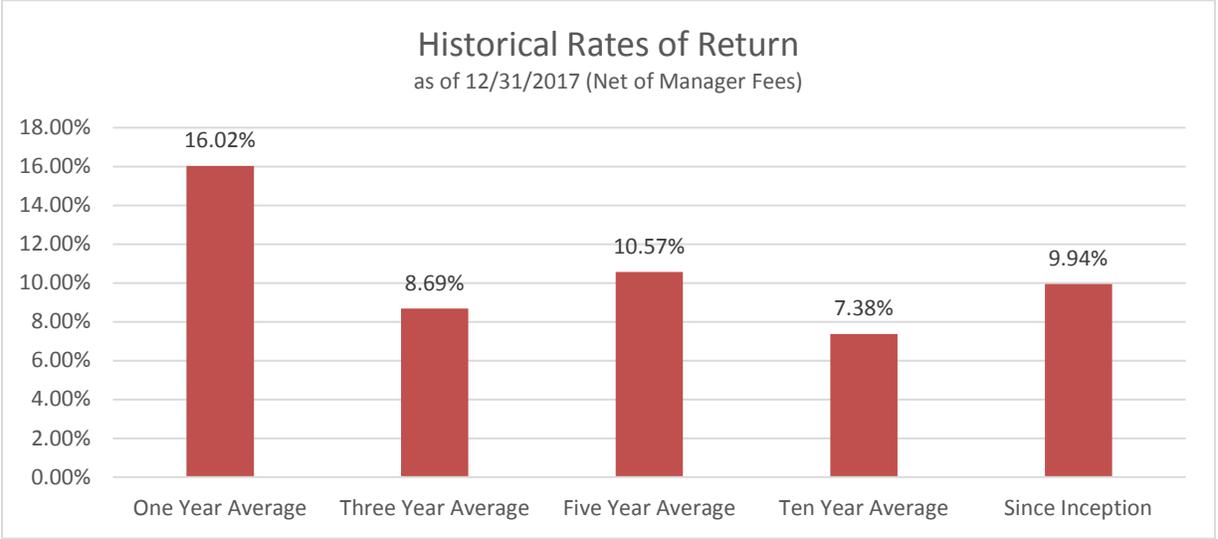
The market value of portfolio assets increased from \$219,627,423 million to \$245,597,878 during 2017, an increase of \$25,970,455 or 11.82%. The 1-year annualized net return was 16.02%, and the return since April 1988, net of manager fees, through the end of the quarter has been 9.94%.



Equities comprised 70.50% of the County portfolio at the end of the year. The equity portion of the County portfolio returned 21.25% year-on-year. Fixed income comprised 22.60% of the County portfolio at the end of the year and total fixed income returned 3.53%. At the end of the year, real estate investments were 5.00% of the portfolio and the one year return on real estate was 5.74%.

The portfolio closed the year with 70.50% in equities, 22.6% in fixed income, 5.0% in real estate, and 2.0% in cash.

The year-on-year inflation rate as of December 31, 2017 was 2.11%, the one year real return was 13.91%. Since April 1988, the return on the portfolio, net of manager fees, has been 9.94% nominal and 7.39% real.



CONTRIBUTIONS

The actuary calculates the total actuarially computed employer contribution for the plan as the normal cost plus a contribution towards unfunded actuarial accrued liability. The Kalamazoo County Retiree Health Care Plan currently has an underfunded liability.

Normal Cost is the annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” This is set using the assumed rate of investment return of 7.50% in addition to other actuarial assumptions.

The Kalamazoo County Retiree Health Care Plan is supported by contributions from the sponsoring entities and by the investment income earned on System assets. Employees do not contribute to the plan. The employer’s contribution rates are determined by the plan’s actuary and are determined by the benefit provisions of the Plan. The employer’s contribution is the remainder needed to meet the financial objective.

Development of the Actuarially Computed Employer Contribution for 2018		
Computed Normal Cost of benefits	County	\$ 473,530
	Authority	\$ 73,991
	Road Commission	\$ 36,674
Amortization of Unfunded Actuarial Accrued Liability	County	\$ 2,818,542
	Authority	\$ 82,580
	Road Commission	\$ 88,392
Actuarially Computed Employer Contribution	County	\$ 3,292,072
	Authority	\$ 156,571
	Road Commission	\$ 125,066

ACTUARIAL ASSUMPTIONS

The actuarial assumptions for the Plan are presented in the table below:

Actuarial Assumptions for the Year Ending December 31, 2017	
Valuation Date	12/31/2017
Actuarial Cost Method	Individual Entry-age Cost Method
Amortization Method	County: Level dollar for General, closed period; Level percentage for FOP, open period
	Authority: Level dollar, closed period
	Road Commission: Level dollar, closed period
Remaining Amortization Period	County: 25 years General; 30 years FOP
	Authority: 27 years
	Road Commission: 25 years
Asset Valuation Method	Market Value of Assets
Inflation Rate	3.5%
Projected Salary Increases (including inflation)	<u>2017</u>
	County: 3.50% to 7.50%
	Authority 3.50% to 5.50%
	Road commission 3.50% to 7.23%
Investment Rate of Return	7.5% net of OPEB plan expenses
Retirement Age	Aged-based or service-based table of rates that are specific to the type of eligibility conditions.
Mortality	RP-2000 mortality combined healthy tables, projected 20 years with U.S. Projection Scale BB.
Health care trend rates	Initial trend of 9.00% gradually decreasing to 3.50%
Excise Tax	No load was applied in connection with the "Cadillac" tax
Aging factors	Based on internal actuary study using several pricing manuals from National Health Care Consultant Groups and incorporating analysis and data from a Society of Actuaries survey regarding aging practices used in health care valuations.



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MISSION STATEMENT

In the Pursuit of Extraordinary Governance,
Kalamazoo County government provides
equitable programs and excellent services to
promote the health and safety of everyone in
Kalamazoo County.

FINANCE DEPARTMENT

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This report can be found online at www.kalcounty.com/finance/2017Retireehealthcareplanssummaryannualreport.pdf
