

# **KALAMAZOO COUNTY**

## **RETIREE HEALTH CARE PLAN**



*In the Pursuit of Extraordinary Governance...*

**Summary Annual Report  
2018**



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## **2018 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, 2018.

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, 2018				
	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	440	39	47	526
Nonvested participants	564	27	93	684
<b>Total membership</b>	<b>1,004</b>	<b>66</b>	<b>140</b>	<b>1,210</b>

**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 \$3,114,845 for 2018.

### ASSETS & LIABILITIES

Total assets as of December 31, 2018 were \$19,518,396 and were comprised mostly of cash and investments. Liabilities totaled \$485,687 resulting in an increase in net position of \$1,419,421 between 2017 and 2018.

Statement of Fiduciary Net Position		
	As of December 31,	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$2,831,808	\$2,175,700
Investments, at fair value:		
U.S. government securities	2,194,084	2,093,934
U.S. agency securities	521,702	407,689
Corporate obligations and mortgage-back funds	1,186,256	1,105,524
Foreign corporate obligations	193,527	198,766
Mortgage-backed funds	225,199	98,418
Domestic equity mutual funds/collective trust funds	7,889,118	8,121,116
Emerging market mutual funds	1,700,251	1,658,435
International equity mutual funds	1,688,172	1,632,181
Real estate investment trust	404,106	390,576
Real estate pooled separate account	508,820	416,232
<b>Receivables:</b>		
Sale of investments	24,370	153,472
Interest and dividends	27,460	26,020
Employer contributions	0	0
Other	123,523	72,005
Prepaid	0	0
<b>Total Assets</b>	<b>19,518,396</b>	<b>18,550,068</b>
<b>Liabilities</b>		
Accounts payable	180,672	83,690
Benefits payable	19,697	127,418
Purchase of investments	287,318	725,672
<b>Total liabilities</b>	<b>485,687</b>	<b>936,780</b>
<b>Net position restricted for pension benefits</b>	<b>\$19,032,709</b>	<b>\$17,613,288</b>

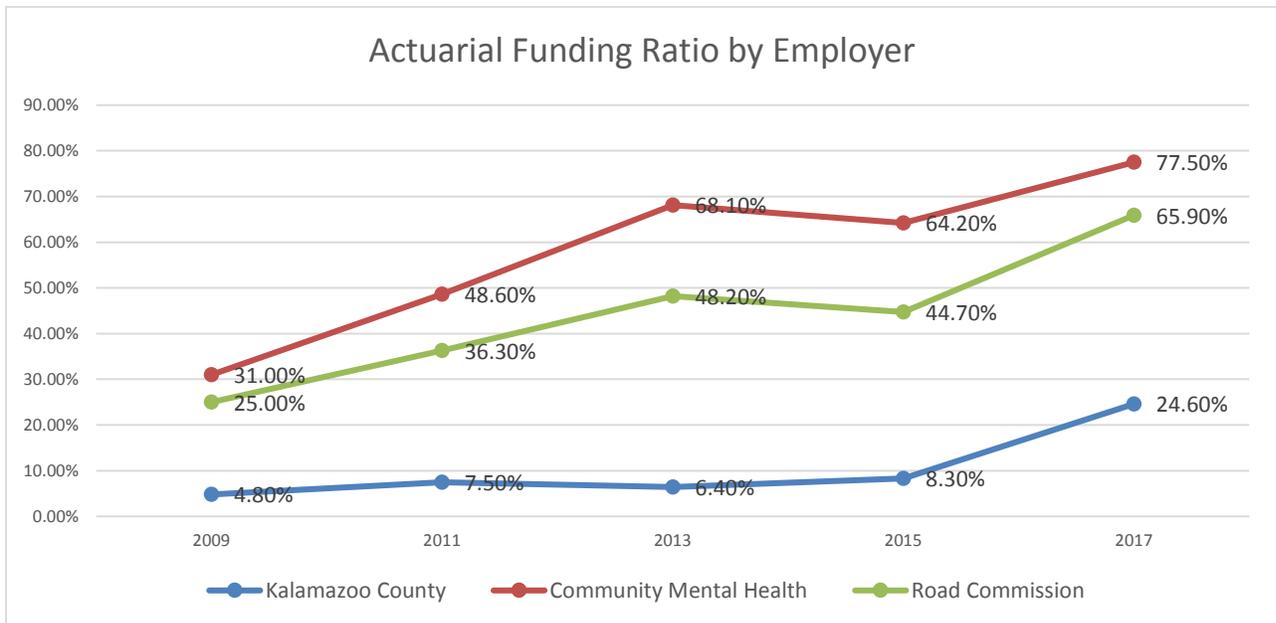
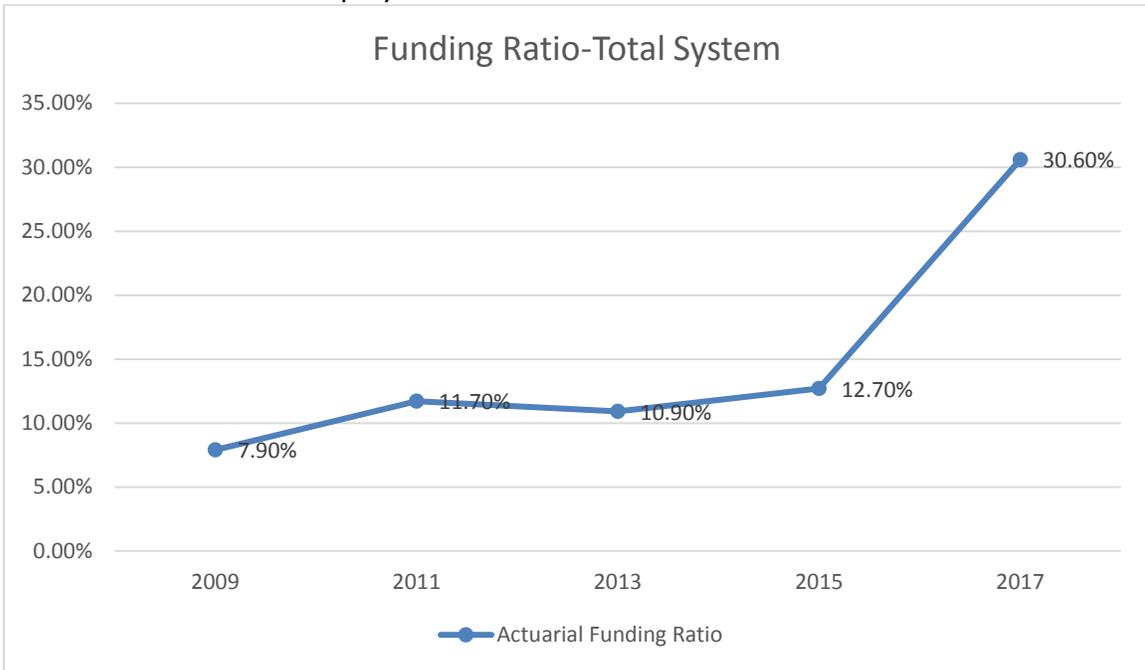
## ADDITIONS AND DEDUCTIONS

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 \$4,763,960 for 2018.

Statement of Changes in Fiduciary Net Position		
	For the Year Ending December 31,	
	2018	2017
Additions		
Contributions:		
Employer	\$6,094,446	\$5,769,169
Employee	-	-
Total contributions	6,094,446	5,769,169
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,796,946)	1,487,329
Income on mutual funds	377,269	333,666
Interest and dividends	138,546	78,650
Income on real estate pooled separate account	19,105	13,600
Other	0	187,933
Total investment income (loss)	(1,262,026)	2,101,178
Investment expense	(68,460)	(48,160)
Net investment income (loss)	(1,330,486)	2,053,018
Total additions	4,763,960	7,822,187
Deductions		
Benefit payments	3,114,845	2,942,769
Administrative expenses	2229,694	148,818
Total Deductions	3,344,539	3,091,587
Change in net position	1,419,421	4,730,600
Net position, beginning of year	17,613,288	12,882,688
Net position, end of year	\$19,032,709	\$17,613,288

## 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 do not meet the assumed rates of return, as they did in 2018, this results in a loss for the system. The actual rate of investment return in FY 2018 was -7.18% which is less than the assumed rate of return.

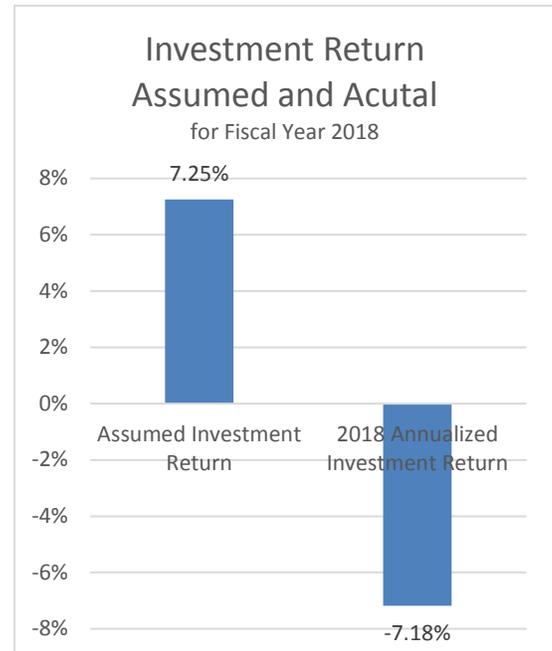
Actual investment performance is reviewed and reported quarterly to the Retirement Investment Committee and is summarized as follows:

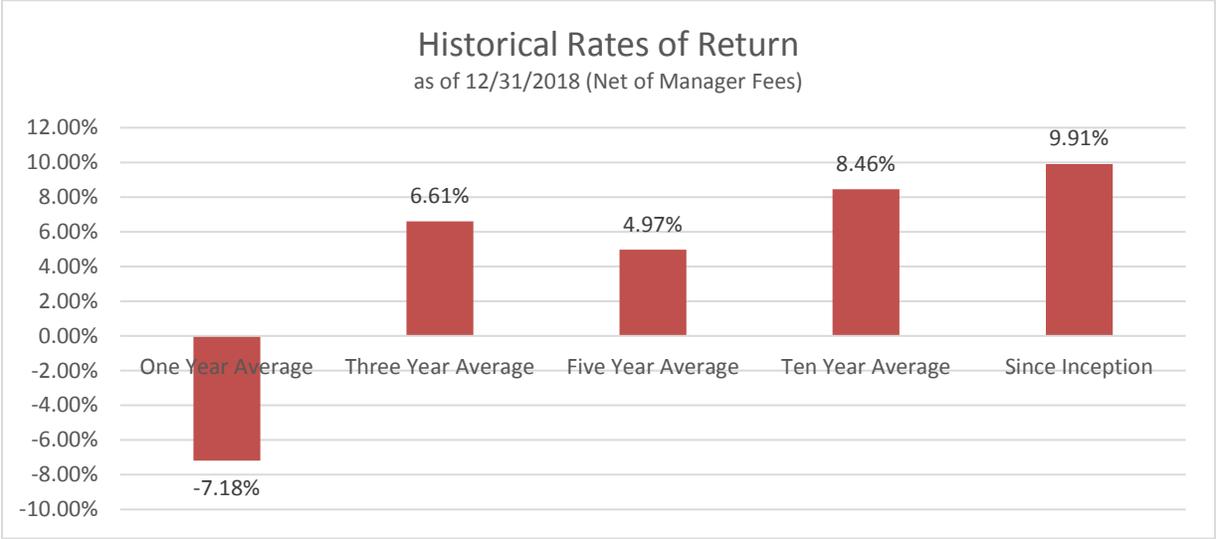
The market value of portfolio assets decreased from \$245.6 million to \$221.4 during 2018, a decrease of \$24.2 or -9.85%. The 1-year annualized net return was -7.18%, and the return since April 1988, net of manager fees, through the end of the quarter has been 9.33%.

Equities comprised 67.9% of the County portfolio at the end of the year. The equity portion of the County portfolio returned -10.43% year-on-year. Fixed income comprised 26.2% of the County portfolio at the end of the year and total fixed income returned -0.09%. At the end of the year, real estate investments were 5.5% of the portfolio and the one year return on real estate was 1.04%.

The portfolio closed the year with 67.9% in equities, 26.2% in fixed income, 5.5% in real estate, and 0.4% in cash. It should be noted that the portfolio is rebalanced on an annual basis.

The year-on-year inflation rate as of December 31, 2018 was 1.91%, the one year real return was -9.09%. Since April 1988, the return on the portfolio, net of manager fees, has been 9.33% nominal and 6.80% 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 7.25% 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 2019		
Computed Normal Cost of benefits	County	\$ 451,981
	Authority	\$ 63,172
	Road Commission	\$ 34,789
Amortization of Unfunded Actuarial Accrued Liability	County	\$ 2,852,789
	Authority	\$ 82,580
	Road Commission	\$ 88,392
Actuarially Computed Employer Contribution	County	\$ 3,304,770
	Authority	\$ 145,752
	Road Commission	\$ 123,181

## ACTUARIAL ASSUMPTIONS

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

Actuarial Assumptions for the Year Ending December 31, 2018	
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)	2018
	County: 3.50% to 7.50%
	Authority: 3.50% to 5.50%
	Road commission: 3.50% to 7.20%
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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## FINANCE DEPARTMENT

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This report can be found online at [www.kalcounty.com/finance/2018Retireehealthcareplanssummaryannualreport.pdf](http://www.kalcounty.com/finance/2018Retireehealthcareplanssummaryannualreport.pdf)

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