

NOTE 5 - CAPITAL ASSETS (Continued)

Depletion/depreciation expense was charged to programs of the Chippewa County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,646,927
Local Road Maintenance and Preventive Maintenance	1,230,322
Equipment Expense	1,135,665
Administrative	13,131
Other Allocated	<u>141,816</u>
Total Depreciation Expense	<u>\$ 4,167,861</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2020.

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

01 - General: Closed Division

	<u>2020 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	0%
Act 88:	Yes (Adopted 11/20/1970)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

02 – General: Open Division

	<u>2020 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	2%
Act 88:	Yes (Adopted 2/1/2004)

Employees Covered by Benefit Terms

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	88
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>66</u>
	160

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined monthly amount for 2021 was \$98,743.

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Salary increases	3.00 %
Investment rate of return	7.35 %, net of interest and administrative expense including inflation

Mortality rates used were based on the Pub-2010 General Employees and Healthy Retirees, head-count weighted, MP-2019 scale.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2014, through December 31, 2018.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	60.00%	5.25%
Global Fixed Income	20.00%	1.25%
Private Investment	20.00%	7.25%

Discount Rate. The discount rate used to measure the total pension liability is 7.60%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2020	\$ 21,915,405	\$ 11,158,189	\$ 10,757,216
Service cost	367,323	-	367,323
Interest on total pension liability	1,623,235	-	1,623,235
Difference between expected and actual experience	(131,286)	-	(131,286)
Changes in assumptions	513,219	-	513,219
Employer contributions	-	1,245,140	(1,245,140)
Employee contributions	-	62,753	(62,753)
Net investment income	-	1,562,843	(1,562,843)
Benefit payments, including employee refunds	(1,481,420)	(1,481,420)	-
Administrative expense	-	(17,926)	17,926
Other changes	(47,127)	-	(47,127)
Net changes	843,944	1,371,390	(527,446)
Balances as of December 31, 2021	\$ 22,759,349	\$ 12,529,579	\$ 10,229,770

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 7.60%, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Road Commission's net pension liability	\$12,756,891	\$10,229,770	\$8,092,218

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2021, the Road Commission recognized pension expense of \$1,148,197. At December 31, 2021, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,882	\$ -
Changes in assumptions	676,989	-
Net difference between projected and actual earnings on pension plan investments	-	945,659
Total	\$ 689,871	\$ 945,659

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended December 31:		Amount
2022	\$	186,405
2023		(112,740)
2024		(179,503)
2025		(149,950)

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all Road Commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2021, the federal aid received and expended by the Road Commission was \$190,482 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local administered projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more.