

NOTE J – OTHER POST EMPLOYMENT BENEFITS:

Plan Description

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985, and who were hired prior to February 1, 2005, until retiree's death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility, the retiree's spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

Employees covered by benefit terms.

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

| | |
|-------------------------|------------|
| Active Employees | 68 |
| Vested Former Employees | - |
| Retirees | 69 |
| Total | <u>137</u> |

Contributions

The Plan was established and is being funded under the authority of the Road Commission. The Plan's funding policy is that the Road Commission will contribute \$750,000 per year while continuing to pay retiree benefits from general operating funds until 100% funded status is obtained. Currently, benefit payments are made from general operating funds. There are no long-term contracts for contributions to the plan.

Net OPEB Liability

The employer's Net OPEB Liability was measured as of December 31, 2022.

Actuarial assumptions

The total OPEB liability used to calculate the Net OPEB Liability was determined by an annual actuarial valuation as of December 31, 2021 rolled forward to December 31, 2022. The following actuarial assumptions were used in the measurement:

| | |
|--------------------------------|--|
| Inflation | 2.26% |
| Salary Increases | 4.00% |
| Investment Rate of Return | 6.70% (including inflation) |
| 20-year Aa Municipal Bond Rate | 4.31% (S&P Municipal Bond 20-Year High Grade Rate Index) |
| Mortality | 2010 Public General Employees and Healthy Retirees, Headcount weighted |
| Improvement Scale | MP-2021 |

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

The long-term expected rate of return on pension plan investments was determined using a building-block 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|-------------------------------|--------------------------|--|
| Large Cap US | 24.00% | 6.05% |
| Mid Cap US | 3.00% | 8.60% |
| Small Cap US | 5.00% | 7.80% |
| International Equities | 25.00% | 7.20% |
| Emerging Mkt Equity | 8.00% | 8.60% |
| US Equities Other | 3.00% | 8.40% |
| Short Term Fixed Inc. | 14.00% | 3.40% |
| US Fixed Inc. | 9.00% | 3.80% |
| International Fixed Inc. | 1.00% | 3.60% |
| Inflations – Linked | 1.00% | 4.90% |
| High Yield | 3.00% | 5.40% |
| Precious Metals (Commodities) | 4.00% | 6.00% |
| Total | <u>100.00%</u> | |

The sum of each target allocation times its long-term expected rate of return, plus inflation, is 6.70%.

Discount rate

The discount rate used to measure the total OPEB liability was 6.70%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will make annual contributions of \$750,000 until the plan is fully funded. Based on this assumption, the retirement plan's fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date", not applicable for this plan), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. As of December 31, 2021, the discount rate used to value OPEB liabilities was 6.16%.

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

Changes in Net OPEB Liability

| Calculating the Net OPEB Liability | | | |
|--|-------------------------|-------------------------------|-----------------------|
| | Increase (Decrease) | | |
| | Total OPEB Liability | Plan Fiduciary Net OPEB | Net OPEB Liability |
| Changes in Net OPEB Liability | (a) | (b) | (a)-(b) |
| Balances as of 12/31/2021 | <u>\$13,867,824</u> | <u>\$3,778,863</u> | <u>\$10,088,961</u> |
| Changes for the Year: | | | |
| Service Costs | 93,774 | - | 93,774 |
| Interest on Total OPEB Liability | 819,643 | - | 819,643 |
| Changes in benefits | - | - | - |
| Difference between expected and actual experience | 347,527 | - | 347,527 |
| Changes in assumption | (637,725) | - | (637,725) |
| Contributions to OPEB trust | - | 400,000 | (400,000) |
| Employer Contributions | - | 1,311,388 | (1,311,388) |
| Employee Contributions | - | - | - |
| Net investment Income | - | (638,517) | 638,517 |
| Benefit payments, including employee refunds | (1,311,388) | (1,311,388) | - |
| Administrative expense | - | (34,019) | 34,019 |
| Other changes | - | - | - |
| Net Changes | <u>(688,169)</u> | <u>(272,536)</u> | <u>(415,633)</u> |
| Balances as of 12/31/2022 | <u>\$13,179,655</u> | <u>\$3,506,327</u> | <u>\$9,673,328</u> |

Sensitivity of the Net OPEB Liability to changes in the discount rate.

The following presents the Net OPEB Liability of the employer, calculated using the discount rate of 6.70%, as well as what the employer's Net OPEB Liability would be using a discount rate that is 1 percentage point lower (5.70%) or 1% higher (7.70%) than the current rate.

| | 1% Decrease (5.70%) | Current Discount Rate (6.70%) | 1% Increase (7.70%) |
|--------------------|---------------------------|-------------------------------------|---------------------------|
| Net OPEB Liability | <u>\$10,898,055</u> | <u>\$9,673,328</u> | <u>\$8,620,940</u> |

The following presents the Net OPEB Liability of the employer, calculated using the current healthcare cost trend rates as well as what the employer's Net OPEB Liability would be using a trend rate that is 1 percentage point lower or 1% higher than the current trend rate.

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--------------------|---------------------|-----------------------|---------------------|
| Net OPEB Liability | <u>\$8,440,3337</u> | <u>\$9,673,328</u> | <u>\$11,107,878</u> |

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2022, the employer recognized OPEB expense of (\$3,639,537). The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|-------------------------------------|--------------------------------------|---------------------------------------|
| Difference in experience | \$- | (\$1,813,453) |
| Difference in assumptions | - | (841,908) |
| Excess (deficit) investment returns | 522,365 | - |
| Total | <u>\$522,365</u> | <u>(\$2,655,361)</u> |

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future OPEB Expenses) | |
|---|----------------------|
| Plan Year Ended December 31, | Amount |
| 2023 | (\$1,111,562) |
| 2024 | (1,057,714) |
| 2025 | (141,184) |
| 2026 | 177,464 |
| 2027 | - |
| Thereafter | - |
| Total | <u>(\$2,132,996)</u> |

Payable to OPEB Plan

At December 31, 2022, the Road Commission reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2022.

NOTE K – CONTINGENCIES:

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission.

Risk Management – The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining