

Protecting Local Government Retirement and Benefits Act Corrective Action Plan: Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

I. MUNICIPALITY INFORMATION

Local Unit Name: Capital Area Transportation Authority Six-Digit Muni Code: 337510

Retirement Health Benefit System Name: Retiree Healthcare Benefit Plan

Contact Name (Administrative Officer): Bradley T. Funkhouser

Title if not Administrative Officer: Chief Executive Officer

Email: bfunkhouser@cata.org Telephone Number: (517) 999-2532

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of PA 202 of 2017 (the Act), this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The completed plan must be submitted via email to Treasury at LocalRetirementReporting@michigan.gov for review by the Board. **If you have multiple underfunded retirement systems, you are required to complete separate plans and send a separate email for each underfunded system.** Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If corrective action is approved, the Board will monitor the corrective action for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

(i) Requiring cost sharing of premiums and sufficient copays.

(ii) Capping employer costs.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTION OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command***

Officers Association and Internal Association of Firefighters that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page 12 of the attached actuarial analysis that indicates the system is **40%** funded as of **June 30, 2017**.

See attached memorandum.

- ☒ **Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **\$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page 10 of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.

See attached memorandum.

- ☐ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicated on page 13.

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

- ☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with **summer 2018** contract negotiations, the local unit will seek revised collective bargaining agreements with the **Command Officers Association** and **Internal Association of Firefighters** to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system would be **40%** funded by **fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019**.

See attached memorandum.

- ☒ **Additional Funding** – Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by **December 31, 2018**. The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by **December 31, 2018**. Additionally, beginning in fiscal year 2019, the local unit will contribute **\$500,000** annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.

See attached memorandum.

- ☐ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: Beginning in **fiscal year 2019**, the local unit will begin amortizing the unfunded portion of the healthcare liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the health system to reach a funded status of **42%** by **2022** as shown in the attached actuarial analysis on page **13**.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for (insert local unit name) CATA to make, at a minimum, the retiree premium payment, as well as the normal cost payments for all new hires (if applicable), for the retirement health benefit system according to your long-term budget forecast?

☐ **Yes**

☒ **No**

If No, Explain:

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming convention: when attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention

Type of Document

☒ Attachment – 1

This Corrective Action Plan (Required)

☐ Attachment – 1a

Documentation from the governing body approving this Corrective Action Plan (Required)

☒ Attachment – 2a

Actuarial Analysis (annual valuation, supplemental valuation, projection)

☐ Attachment – 3a

Internally Developed Projection Study

☐ Attachment – 4a

Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).

☐ Attachment – 5a

Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)

☐ Attachment – 6a

A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio

☒ Attachment – 7a

Other documentation, not categorized above

7. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

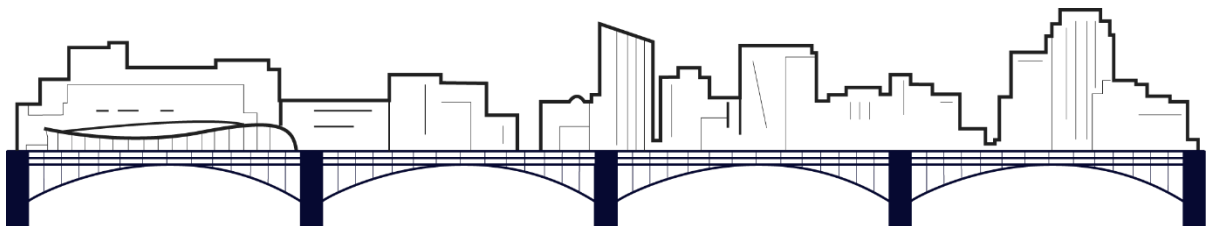
I Bradley T. Funkhouser, as the government's administrative officer (enter title)
Chief Executive Officer (City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

Signature Bradley T. Funkhouser Date 01/08/2019

Capital Area Transportation Authority Retiree Medical Plan

Accounting Report

for the Period Ending September 30, 2018
under GASB Statement No. 74 and No. 75



Report presented by:



December 2018

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INTRODUCTION AND CERTIFICATION

The schedules included in this report have been prepared in order to provide the information necessary to comply with Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. This information may, at the discretion of management of the plan sponsor and its auditor, be used for the preparation of its financial statements. The calculations herein have been made based on our understanding of GASB 74 and 75, and may be inappropriate for other purposes.

The calculations summarized in this report involve actuarial calculations that require assumptions about future events. We believe that the assumptions used in the report are within the range of possible assumptions that are reasonable and appropriate for the purposes for which they have been used. However, other assumptions are also reasonable and appropriate and their use would produce different results.

This report contains additional information and details related to plan provisions and recommended contribution calculations.

This report was prepared on the basis of participant data and asset values as reported to us by the plan sponsor. Watkins Ross relied upon the data as submitted, and has no reason to believe that any information, which would have a material effect on the results of this valuation, was not considered in the preparation of the report.

The actuary certifying this report represents himself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared by and Certified by:



Christian R. Veenstra, ASA, MAAA
Enrolled Actuary #17-05668

PLAN DESCRIPTION

Summary of Significant Accounting Policies

OPEBs. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Capital Area Transportation Authority Employee OPEB Plan and additions to/deductions from the Transportation Authority's fiduciary net position have been determined on the same basis as they are reported by the Capital Area Transportation Authority. For this purposes, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Capital Area Transportation Authority Retiree Medical Plan is a single employer plan established and administered by ***Capital Area Transportation Authority*** and can be amended at its discretion.

Benefits Provided

A summary of plan provisions is available on page 11.

Summary of Plan Participants

Retirement Plan membership as of October 1, 2017 consisted of the following:

	2017
Inactive plan members receiving benefits	128
Active plan members	<u>214</u>
Total participants	342

Contributions

The Capital Area Transportation Authority Postemployment Health Insurance Benefits Plan was established and is being funded under the authority of the Capital Area Transportation Authority and under agreements with the unions representing employees. The plan's funding policy is that the employer will review the funded status and make contributions as deemed prudent – currently \$620,529 for the year ending September 30, 2018. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The Employer's OPEB liability was measured as of as of September 30, 2018.

Actuarial Assumptions

The Total OPEB Liability was determined by an actuarial valuation as of October 1, 2017 and the following actuarial assumptions were used to determine the liability as of the measurement date:

Inflation	Included in the expected return
Salary increases	4.0% (for purposes of allocating liability)
Investment rate of return	7.0% (net of investment expense, including inflation)
20-year Aa Municipal bond rate	3.65%
Mortality	RPH 2014 Headcount weighted, annuitant and non-annuitant, sex-distinct mortality table projected with improvement scale MP-2018

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense 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. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Stock market index fund	60%	8.50%
Bond and corp. index fund	40	4.75

The sum of each target allocation times its long-term expected rate is 7.0%.

Discount Rate

The discount rate used to measure the total OPEB liability was **3.86%**. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates comparable to the most recent contribution expressed as a percentage of covered active lives. Based on those assumptions, the Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments of current plan members beyond 2029. 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"), 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. The discount rate used as of September 30, 2017 was 3.74%.

NET OPEB LIABILITY – GASB 74 PLAN ACCOUNTING

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at September 30, 2016	35,530,482	6,693,301	28,837,181
Changes during the Year			
Service Cost	1,781,196		1,781,196
Interest	1,377,737		1,377,737
Experience (Gains)/Losses	341,423		341,423
Change in actuarial assumptions	1,155,482		1,155,482
Adjustment for value of Medicare support and eligibility	11,712,289		11,712,289
Contributions to OPEB trust		620,529	(620,529)
Contributions/benefit paid from general operating funds		947,617	(947,617)
Net Investment Income		841,383	(841,383)
Benefit Payments; Including Refunds of Employee Contributions	(947,617)	(947,617)	
Administrative Expenses		-	-
Other Changes	-	-	-
Total Changes	15,420,510	1,461,912	13,958,598
Balance at September 30, 2018	50,950,992	8,155,213	42,795,779

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB liability (NOL) of the Transportation Authority, calculated using trend and discount rates 1% higher and lower than base assumptions:

	1% Decrease	Current Rate	1% Increase
<u>Trend</u>			
Total OPEB Liability	42,989,787	50,950,992	61,114,555
Plan Fiduciary Net Position	<u>8,155,213</u>	<u>8,155,213</u>	<u>8,155,213</u>
Net OPEB Liability	34,834,574	42,795,779	52,959,342
	1% Decrease	Current Rate	1% Increase
<u>Discount</u>			
Total OPEB Liability	59,492,099	50,950,992	44,129,995
Plan Fiduciary Net Position	<u>8,155,213</u>	<u>8,155,213</u>	<u>8,155,213</u>
Net OPEB Liability	51,336,886	42,795,779	35,974,782

OPEB EXPENSE - GASB 75

Components of Transportation Authority's OPEB Expense under GASB 75 for the Fiscal Year Ending September 30, 2018

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending September 30, 2018
Service Cost	1,781,196
Interest on Total OPEB Liability	1,377,737
Experience (Gains)/Losses	68,478
Changes of Assumptions	191,622
Valuation of Medicare support	11,712,289
Employee Contributions	
Projected Earnings on OPEB Plan Investments	(490,249)
Investment Earnings (Gains)/Losses	(150,741)
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
Total OPEB Expense	<u>14,490,332</u>

NET OPEB LIABILITY - GASB 75

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	336,382	-
Changes of Assumptions	963,860	-
Investment Earnings (Gains)/Losses	-	<u>522,446</u>
Total	\$1,300,242	\$522,446

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

Year Ended September 30,	Amount Recognized
2019	\$109,359
2020	109,359
2021	109,361
2022	189,874
2023	252,395
Thereafter	\$7,447

NET OPEB LIABILITY - GASB 75

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report. The net fiduciary position as of September 30, 2018 is \$8,155,213

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability September 30, 2017	\$28,837,181
Total OPEB expense	14,490,332
Contributions	(1,568,146)
Change in deferred outflows of resources	1,236,805
Change in deferred inflows of resources	<u>(200,393)</u>
Net OPEB Liability September 30, 2018	\$42,795,779

Net OPEB Liability by Participant Status

	2018	2017
Active participants	\$34,902,595	\$25,506,107
Inactive participants receiving benefits	<u>16,048,397</u>	<u>10,024,375</u>
Total	\$50,950,992	\$35,530,482

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending September 30,	
	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	1,781,196	1,738,555
Interest	1,377,737	1,299,584
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	341,423	75,294
Change of Assumptions	1,155,482	-
Valuation of Medicare support	11,712,289	
Benefit Payments (Including Refunds of Employee Contributions)	(947,617)	(1,185,270)
Net Change in Total OPEB Liability	15,420,510	1,928,163
Total OPEB Liability – Beginning	35,530,482	33,602,319
Total OPEB Liability – Ending (a)	50,950,992	35,530,482
Plan Fiduciary Net Position		
Contributions to OPEB trust	620,529	590,980
Contributions/benefit payments made from general operating funds	947,617 ¹	1,185,270
Net Investment Income	841,383	794,780
Benefit Payments (Including Refunds of Employee Contributions)	(947,617)	(1,185,270)
Administrative Expenses		-
Other		-
Net Change in Fiduciary Net Position	1,461,912	1,385,760
Plan Fiduciary Net Position – Beginning	6,693,301	5,307,541
Plan Fiduciary Net Position – Ending (b)	8,155,213	6,693,301
Net OPEB Liability – Ending (a)-(b)	42,795,779	28,837,181
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	16.0%	18.8%
Covered Employee Payroll		
Net OPEB Liability as Percentage of Payroll	____%	____%

Schedule of Employer Contributions

	Fiscal Year Ending September 30,		
Actuarially Determined Employer Contribution	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service cost with interest to September 30	2,100,849	1,847,813	1,803,577
Amortization of unfunded liability w/ interest to September 30 ²	<u>5,576,590</u>	<u>3,290,782</u>	<u>2,902,347</u>
Actuarially Determined Employer Contribution	7,677,439	5,138,595	4,705,924
Employer Contribution	<u>TBD</u>	<u>(1,568,146)</u>	<u>1,776,250</u>
Contribution Deficiency/(Excess)	TBD	(3,570,449)	2,929,674
Covered Employee Payroll		Not avail	Not avail
Contribution as a Percentage of Covered Payroll	%	Not avail	Not avail

¹ \$997,564 less retiree premium payments \$49,947

² Based on EAN, 10, 9 and 8 year level percent of pay amortization of unfunded liability; alternative scenarios can be considered

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions Used in Calculation of Actuarially Determined Contribution

Valuation Date October 1, 2017 projected to September 30, 2018

Actuarial Methods

Cost method	Entry Age Normal (level percentage of compensation)
Amortization	Level percent over active average future service
Asset valuation method	Equal to market value of assets

Actuarial Assumptions

Discount rate – 3.74% for 2018 contribution; 3.86% for September 30, 2018 liability and 2019 contribution
Rationale – Average effective rate consisting of long term return on assets and 20 year Aa Municipal Bond

Payroll inflation for purposes of allocating liability over service – 3.75%

Rationale – Per uniform assumptions under Public Act 202

Return on plan assets – 7.0%

Rationale – Weighted average of asset target allocation and long term expected rate of return

Mortality rates – RPH 2014 Annuitant and non-annuitant, sex-distinct mortality with projection scale MP-2018

Rationale – Contemporary tables and consistent with uniform assumptions under Public Act 202

Annual per capita claims costs

See rates below:

Age	Medical		Rx	
	Male	Female	Male	Female
45-49	2,363	3,454	1,268	1,585
50-54	2,908	3,635	1,585	1,981
55-59	3,635	4,544	2,140	2,298
60-64	4,908	5,271	2,694	2,615
65+	1,608 ³	1,608	3,328	2,932
70-74			3,962	3,328
75-79			4,596	3,724
80-84			4,755	3,883
85-89			4,358	3,645
90+			4,121	3,407

Rationale – Pre-65 medical based on actual experience; Rx per retiree experience

Stop loss premium, admin and fees – \$117.57, \$72.86 and \$11.00 per month per retiree respectively

Rationale – actual monthly amounts

Inflation rates

Pre-65 – 8.5% graded 0.25% per year to 4.5%

Medicare eligible – 7.0% graded 0.25% per year to 4.5%

Rationale – Per uniform assumptions under Public Act 202

³ Medicare Part B premium

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Medicare supplement – 4.5%

Rationale – average annual increase of Part B premiums since 2012 and reflects long term uniform assumption

Admin and fees – 3.0% per year

Rationale - estimate of long term CPI

Turnover rates – Sample rates below

Rationale – Standard municipal turnover rates as a proxy for union and admin blended turnover

Age	Rate
25	5.00
30	4.50
35	3.55
40	1.45
45	0.75

Retirement rates – Retirement eligibility

Rationale – consistent with aggregate admin and union experience and maximizes available benefit

Marital assumption – 60% of male and 25% of female active employees will have covered spouse at retirement with females 2 years younger than males; Actual spouse data used for retirees

Rationale – consistent with retiree health coverage experience

Utilization – 100% of future retirees are expected to participate in post-retirement health plan coverage

Rationale – consistent with experience

40% excise tax on “high cost” group health coverage – Premiums are not projected to exceed the 2022 thresholds, The thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following

Data Collection

Date and form of data – All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

Changes since prior valuation

Medicare medical support valued

Mortality updated to RPH 2014 with MP-2018 improvement projection

Updated health inflation

Lowered average annual wage increase from 4.0% to 3.75%

Discount rate increased from 3.74% to 3.86%

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year Ended September 30,	Difference Between Expected and Actual Experience	Recognition Period (Years)	Amount Recognized in Year Ended September 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022	2023+		
2017	75,294	6.35	11,857	11,857	11,857	11,857	11,857	4,152	51,580	-
2018	341,423	6.03	<u>56,621</u>	<u>56,621</u>	<u>56,621</u>	<u>56,621</u>	<u>56,621</u>	<u>58,318</u>	<u>284,802</u>	-
Net Recognized in OPEB Expense			68,478	68,478	68,478	68,478	68,478	62,470	336,382	-

Schedule of Changes in Assumptions

Year Ended September 30,	Changes in Assumptions	Recognition Period (Years)	Amount Recognized in Year Ended September 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022	2023+		
2017	-		-	-	-	-	-	-	-	-
2018	1,155,482	6.03	<u>191,622</u>	<u>191,622</u>	<u>191,622</u>	<u>191,622</u>	<u>191,622</u>	<u>197,372</u>	<u>963,860</u>	-
Net Recognized in OPEB Expense			191,622	191,622	191,622	191,622	191,622	197,372	963,860	-

Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments

Year Ended September 30	Difference Between Expected and Actual Earnings on OPEB Assets	Recognition Period (Years)	Amount Recognized in Year Ended September 30,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2018	2019	2020	2021	2022	2023+		
2017	(402,568)	5.00	(80,514)	(80,514)	(80,514)	(80,512)	-	-	0	(241,540)
2018	(351,134)	5.00	<u>(70,227)</u>	<u>(70,227)</u>	<u>(70,227)</u>	<u>(70,227)</u>	<u>(70,226)</u>	<u>0</u>	<u>0</u>	<u>(280,907)</u>
Net Recognized in OPEB Expense			(150,741)	(150,741)	(150,741)	(150,739)	(70,226)	0	0	(522,447)

Total Deferred Outflow/(Inflow) of Resources

Amount Recognized in Year Ended September 30,					
	2019	2020	2021	2022	2023+
Total Deferred Outflow/(Inflow) of Resources	109,359	109,359	109,361	189,874	259,842

SUMMARY OF PLAN PROVISIONS

Plan name – Capital Area Transportation Authority OPEB Plan

Eligibility Requirements

Union	Age 59 with 15 years of service
Non-Union	Age 59 with 11 years of service

Summary of Benefits

Employer pays pre-65 medical coverage and a Medicare supplement, life insurance premiums and drug coverage for life

Spouse	Covered to death or remarriage
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Retiree contribution

As set by employer

Changes Since Prior Valuation

Medicare supplement included in valuation; Union eligibility updated from age 59 with 10 years of service to age 59 with 15 years of service

GLOSSARY

A number of special terms and concepts are used in connection with OPEB plans and the OPEB accounting report. The following list reviews a number of these terms and provides a brief discussion of their meaning.

Accrued Benefit - Each participant has an accrued benefit under the plan. This is the amount of monthly benefit already earned. It is based on past employment with the company and is payable at normal retirement.

Actuarial Cost Method - This is a mathematical formula which is used to allocate the present value of projected benefits to past and future plan years.

Amortization – The difference between actual and expected investment returns, the difference between actual and expected experience, and the impact of any plan or assumption changes will be amortized and paid over future years.

Depletion Date (Cross-over Point) – The projected date (if any) where plan assets, including future contributions, are no longer sufficient to pay Projected Benefit Payments to current members.

Long-term expected rate of return – The rate of return based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

Market Value of Assets Date – The market value of all assets in the fund including any accrued contribution for the previous plan year, which was not paid by the end of the year.

Measurement Date – The date the Total OPEB Liability, Fiduciary Net Position, and Net OPEB Liability are determined. For GASB 67, the measurement date is the plan's current fiscal year end.

Net OPEB Liability (NOL) – The Total OPEB Liability less the Plan Fiduciary Net Position.

Plan Fiduciary Net Position – The market value of plan assets as of the measurement date.

OPEB Expense (OE) – The change in the Net OPEB Liability (NOL) recognized in the current measurement period. Changes to the NOL not fully recognized in a given year's OPEB expense will be maintained as deferred inflows and deferred outflows. These will be recognized incrementally in the OPEB expense over time.

Present Value - The present value of a future payment or a series of payments is the amount of each payment, discounted to recognize the time value of money, and further reduced for the probability that the payment might not be made because of death, disability or termination of employment.

GLOSSARY

Present Value of Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current accrued benefits.

Projected Benefit Obligation - The value of benefits earned to the measurement date, but based on anticipated salary levels at retirement, computed in accordance with accounting rules.

Projected Benefit Payments – All benefits projected to be payable to current active and inactive employees as a result of their past service and their expected future service.

Real Rate of Return – The rate of return on an investment after the adjustment to eliminate inflation.

Service Cost - The value of benefits earned during the current year computed in accordance with accounting rules.

Single Equivalent Discount Rate – The single rate that gives the same total present value as discounting the Projected Benefit Payments with the long-term expected rate of return until the Depletion Date and discounting any remaining Projected Benefit Payments with the yield on a 20-year AA/Aa tax-exempt municipal bond index.

Total OPEB Liability (TOL) – The actuarial present value of the accrued benefit determined under the entry age actuarial cost method calculated using the Blended Single Equivalent Discount Rate.

CATA Memorandum

To: Michigan Department of Treasury, Local Retirement Reporting Team

From: Patrick S. Lemon, Director of Finance

Date: 12/28/2018

Sub: Capital Area Transportation Authority Retirement Health Benefit Corrective Action Plan

CATA's Other Post-Employment Benefits (hereinafter "OPEB") liability as of the date of the most recent valuation (September 30, 2018) stood at \$50,950,992, while OPEB Trust assets stood at \$8,155,213, leaving a net OPEB liability of \$42,795,779.

CATA's obligation to cover employees following retirement stems from two sources:

1. CATA's collective bargaining agreement with the Amalgamated Transit Union (hereinafter the "Union Contract"), and
2. CATA's Administrative Employee Guidebook (hereinafter the "Admin Handbook").

It should be noted that CATA's existing Union Contract expires on November 30, 2019.

EXISTING PLAN PROVISIONS

The provisions of the Union Contract that are significant to the calculation of the OPEB liability are as follows:

- Eligibility/Service period – the existing Union Contract contains three distinct eligibility groups depending on an employee's hire date.

Group	Hire Date After:	Hire Date Before	Service Period In Years	Retirement Age
1	N/A	12/1/2004	1	59
2	12/1/2004	12/1/2009	5	59
3	12/1/2009	7/23/2015	10	60

- The level of medical benefits to be provided to retirees (or their spouses) prior to age 65 must match that provided to active employees covered under the Union Contract.
- The level of medical benefits to be provided to retirees (or their spouses) age 65 and older must be equal to that provided under Medicare Supplemental benefits underwritten by BC/BS of MI.
- Employees that retire early, with at least 10 years of service, cannot receive OPEB benefits until they reach retirement age.
- Employees that retire early with less than 10 years of service are not eligible at any time for OPEB benefits.

Memorandum

- Surviving spouses are to receive retiree medical benefits only until age 65 or for 20 years, whichever occurs first.
- Retirees age 65 or older are to receive the same prescription drug benefits as the pre-age 65 retirees.
- Spouses of retirees that have other medical benefits available to them will not be covered under CATA's retiree medical plan.
- Retirees are required to pay participation fees to CATA to be covered under retiree medical benefits.

The provisions of the Administrative Plan are virtually identical to that of the Union Plan.

ESTABLISHMENT OF OPEB TRUST

CATA's OPEB Trust was created September 28, 2009.

HISTORY OF TRUST FUNDING AND PARTICIPATION FEES

CATA has made the following employer contributions to the OPEB Trust since its creation in 2009:

Year	Contribution
2010	\$788,000
2011	\$441,000
2012	\$463,050
2013	\$510,512
2014	\$562,839
2015	\$536,038
2016	\$0
2017	\$590,980
2018	\$620,529

Retirees participating in CATA's Retirement Health Benefit Plan have been required to make contributions to the Plan since 2005. The annual contributions required of retirees pursuant to the plan have been/will be as follows:

3/1/2005 – 2/28/2006 \$9/week

3/1/2006 – 2/28/2007 \$10/week

3/1/2007 – 2/28/2008 \$11/week

3/1/2008 – 2/28/2009 \$12/week

3/1/2009 – 7/22/2015 \$13/week

7/23/2015 – 2/28/2016 \$13/week, plus \$3/week for dental and vision

3/01/2016 – 2/28/2017 \$22/week, plus \$3/week for dental and vision

Memorandum

3/01/2017 – 2/28/2018 \$24/week, plus \$3/week for dental and vision

3/01/2018 – 2/28/2019 \$26/week, plus \$3/week for dental and vision

3/01/2019 – 11/30/2019 \$28/week, plus \$3/week for dental and vision

OTHER ACTIVITIES TO DATE

In May 2018, CATA management formed a committee to investigate and understand its current OPEB situation, to develop an OPEB corrective action plan and, ultimately, to implement the CAP. The committee consists of CATA's Chief Executive Office, Deputy Chief Executive Officer, Director of Finance and Human Resources Manager.

In June 2018, CATA engaged Plante Moran (an international certified public accounting and consulting firm) to perform an analysis and evaluation of CATA's OPEB plan and to present and educate CATA's management on potential options to address its underfunded OPEB obligation.

In October 2018, Plante Moran provided CATA with a report that provided information concerning retiree medical findings, alternative plan designs and cost impacts of potential changes to the plan.

CORRECTIVE ACTION PLAN

CATA management expects to begin negotiations with the ATU towards the end of 2019. We believe that a solution will need to be crafted with the ATU that considers significant structural changes to the plan, potential changes to the Service Period and Retirement Age, potential changes to the level of benefits, and increased funding by both CATA and the participants. However, at this time, CATA management is not willing to document such changes until it has had an opportunity to work with the ATU as providing such changes via this CAP would likely weaken CATA's negotiating position.

APPROVAL BY CATA'S GOVERNING BODY

CATA intends to present its CAP to its Board of Directors at the February 20, 2019 meeting of the Board.