

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description: The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The Road Commission 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 by accessing the MERS website at www.mersofmich.com.

Benefits Provided:

Table 2	2021 Valuation	2021 Valuation
	<u>01 - General Other:</u>	<u>10 - Gnrl Rd Com:</u>
	Closed to new hires,	Closed to new hires
Benefit Multiplier:	2.25% Multiplier (80% max)	2.25% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25	50/25
	55/15	55/15
Final Average Compensation:	5 years	5 years
Employee Contributions:	0%	3% under \$4,200; 5% over \$4,200
DC Plan for New Hires:	11/1/2013, SLIF (75 days)	-
Act 88:	No	No

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

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>13</u>
 Total employees covered by MERS Plan	 <u><u>65</u></u>

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Contributions: The Road Commission is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2022, the Road Commission's contribution rate was \$64,673 monthly for general employees and \$241 monthly for general road commission employees.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation performed as of that date.

Actuarial assumptions: The total pension liability in the December 31, 2021, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	3.00% in the long-term
Investment Rate of Return	7.00%, net of investment expense and administrative expense including inflation

Mortality rates used were a version of Pub-2010 and fully generational MP-2019, based upon the experience study dated February 14, 2020.

The actuarial assumptions used in the December 31, 2021; valuation was based on the results of the most recent actuarial experience study in 2014-2018.

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 as of December 31, 2021, for each major asset class are summarized in the following table:

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Gross Return</u>	<u>Long-Term Expected Gross Return Contribution</u>	<u>Inflation Assumption</u>	<u>Long-Term Real Rate of Return</u>
Global Equity	60%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20%	4.50%	0.90%	2.50%	0.40%
Private Investments	20%	9.00%	1.90%	2.50%	1.40%
Total	<u>100%</u>		<u>7.00%</u>		<u>4.50%</u>

Discount rate: The discount rate used to measure the total pension liability is 7.25% for the valuation on December 31, 2021. 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.

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances at December 31, 2020	\$11,145,416	\$5,957,385	\$5,188,031
Changes for the Year:			
Service Cost	68,567	-	68,567
Interest	818,019	-	818,019
Difference between expected and actual experience	97,906	-	97,906
Changes in assumptions	484,441	-	484,441
Contributions--Employer	-	812,244	(812,244)
Net investment income	-	832,754	(832,754)
Benefit payments, including refunds	(832,585)	(832,585)	-
Administrative expense	-	(9,552)	9,552
Net changes	<u>636,348</u>	<u>802,861</u>	<u>(166,513)</u>
Balances as of December 31, 2021	<u>\$11,781,764</u>	<u>\$6,760,246</u>	<u>\$5,021,518</u>

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability at December 31, 2021		\$ 5,021,518	
Change in Net Pension Liability (NPL)	\$ 6,217,333		\$ 3,999,755

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

For the year ended December 31, 2022, the Road Commission recognized pension expense of \$120,916. At December 31, 2022, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Excess (Deficit) Investment Returns	-	332,279
Changes in assumptions	-	-
Contributions subsequent to the measurement date*	<u>838,968</u>	<u>-</u>
Total	<u>\$ 838,968</u>	<u>\$ 332,279</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending December 31, 2023.

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

Years Ending December 31	Amount
2023	\$ (14,179)
2024	(146,922)
2025	(107,752)
2026	(63,426)

NOTE H--OTHER POSTEMPLOYMENT BENEFITS

Plan Description: In addition to the pension benefits described in Note G, the Road Commission provides post-employment healthcare insurance benefits to specified retired employees and/or their spouse. The benefits are provided in accordance with Article 10, Section 1, of the union agreement.

Benefits Provided: Healthcare benefits are provided upon retirement as follows: For salaried employees hired after May 2, 2012, and for Union employees, premiums are paid by the Road Commission for the participant for 8 years after retirement and pre-65 reimbursement of deductible up to \$3,750 and premiums are paid by the Road Commission for the spouse for 3 years after retirement and pre-65 reimbursement of deductible up to \$3,750. For salaried employees hired by May 2, 2012, the premiums are paid by the Road Commission for the participant for life and pre-65 reimbursement of deductible up to \$3,750 and premiums are paid by the Road Commission for the spouse until age 70 and pre-65 reimbursement of deductible up to \$3,750.

Employees covered by benefit terms. At the December 31, 2022, the following employees were covered by the benefit terms:

Active Plan Participants	18
Inactive Plan Participants	0
Retirees and Beneficiaries	15
	<hr/>
Total Participants	33
	<hr/>

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE H--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Contributions. The Dickinson County Road Commission Retiree Health Plan was established and is being funded under the authority of the Road Commission. The plan's funding policy has been that the employer funds the plan on a "pay-as-you-go" basis. That is, benefit payments have been made from general operating funds. Currently, benefit payments are made from general operating funds. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves. During the year, the Road Commission contributed \$486,071 for the benefit.

Net OPEB Liability. The Road Commission's net OPEB liability was measured as of December 31, 2022. The December 31, 2022, total OPEB liability was determined by an actuarial valuation performed as of December 31, 2022.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.0%
Investment rate of return	7.00%
20-year Aa Municipal bond rate	4.31%
Mortality	Public General 2010 Employee and Healthy Retiree, Headcount Weighted

Discount Rate. The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will make annual trust contributions of \$240,000 while continuing to pay retiree benefits from general operating funds through 2028. 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"), 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 to value the liabilities as of December 31, 2021, was 4.53%.

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE H--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at December 31, 2021	\$ 3,851,761	\$ 365,116	\$ 3,486,645
Changes for the Year:			
Service Cost	152,218	-	152,218
Interest	175,806	-	175,806
Experience (Gains) / Losses	(1,293,711)	-	(1,293,711)
Change in Plan Terms	22,533	-	22,533
Change in Actuarial Assumptions	(525,017)	-	(525,017)
Contributions - Employer	-	486,071	(486,071)
Benefit Payments, Including Refunds	(246,071)	(246,071)	-
Investment Income	-	(44,149)	44,149
Administrative Expenses	-	(822)	822
Net Changes	(1,714,242)	195,029	(1,909,271)
Balance at December 31, 2022	\$ 2,137,519	\$ 560,145	\$ 1,577,374

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB liability of the Road Commission	\$ 2,273,588	\$ 2,137,519	\$ 2,015,505
Plan Fiduciary Net Position of the Road Commission	560,145	560,145	560,145
Net OPEB liability of the Road Commission	\$ 1,713,443	\$ 1,577,374	\$ 1,455,360

DICKINSON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

NOTE H--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability of the Road Commission	\$ 2,298,586	\$ 2,137,519	\$ 2,745,416
Plan Fiduciary Net Position of the Road Commission	560,145	560,145	560,145
Net OPEB liability of the Road Commission	<u>\$ 1,738,441</u>	<u>\$ 1,577,374</u>	<u>\$ 2,185,271</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2022, the Road Commission recognized OPEB expense of (\$543,908). At December 31, 2022, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience (Gains) / Losses	\$ 158,963	\$ 1,206,693
Changes in Assumptions	364,127	872,630
Investment Earnings (Gains)/Losses	46,808	-
Total	<u>\$ 569,898</u>	<u>\$ 2,079,323</u>

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

<u>Years Ending December 31</u>	<u>Amount</u>
2023	\$ (373,591)
2024	(373,361)
2025	(369,959)
2026	(353,361)
2027	(39,153)
Thereafter	-