



# City of Brighton

## REPORT FROM THE CITY MANAGER TO CITY COUNCIL

April 2, 2020

**SUBJECT: APPROVAL OF GABRIEL RODEDER SMITH (GRS) DECEMBER 31, 2019 ACTUARIAL FUNDING VALUATION OF THE CITY OF BRIGHTON RETIREE HEALTH CARE PLAN AND JUNE 30, 2020 AND JUNE 30, 2021 GASB ACCOUNTING REPORTS**

### **BACKGROUND**

Over the last several years both the Governmental Accounting Standards Board (GASB) and the State of Michigan have increased focus and made immense changes in the ways that governments record and report retiree healthcare benefits. These changes are complex and cumbersome and require sophisticated calculations by actuaries. City staff has desired for a couple of years to switch actuary firms after experiencing delays in reporting and issues with the quality of initial and subsequent drafts. It was not prudent to switch actuaries knowing that union contracts were coming up for negotiation, so we held off. The actuarial calculated liability can be rolled forward so that we only pay for that report every two years, however if the plans change drastically during that two-year period we would have to pay for another actuarial report. Now that our new benefits are in place it is the perfect time to switch actuaries and obtain a quality and accurate valuation that will paint the picture of our future liabilities.

### **ADMINISTRATIVE SUMMARY**

The proposed fees are \$11,000 for the valuation to be completed as of December 31, 2019. Once the valuation is completed, the actuaries will be able to roll forward data to compile the GASB reports for both the June 30, 2020 and June 30, 2021 year ends at a cost of \$6,000 each year. The proposal also shows that for \$2,500 for each fiscal year end they will calculate the liability using the State of Michigan's uniform assumption. We can avoid this fee by using the same assumptions that the State requires for reporting. Staff recommends using the State's uniform assumptions, not just to save on fees, but because it makes sense to use lower interest income assumptions. Because the initial valuation will be as of December 31, 2019 the fee of \$11,000 will fall in the current fiscal year budgeted funds available to cover the expense. The roll-forward work will begin after June 30, 2020 and the budget for next year already includes the cost of \$6,000 for the year-end report that will be issued. The cost of the actuarial report for last year was \$5,500, however staff believes the added investment of going with a top notch firm, particularly after the recent changes resulting from negotiations is paramount to understanding our true liability.

### **RECOMMENDED MOTION**

Staff recommends that City Council authorize the City Manager to execute the attached engagement letter with Gabriel Roeder Smith to perform the actuarial funding valuation as of December 31, 2019 using the State of Michigan's uniform assumptions at a cost of \$11,000 and the annual GASB reports for the years ended June 30, 2020 and 2021 at a cost of \$6,000 each year.

Prepared by: Gretchen Gomolka, Finance Director

Approved by: Nate Geinzer, City Manager



March 12, 2020

Ms. Gretchen Gomolka, Finance Director  
City of Brighton  
200 North First Street  
Brighton, MI 48116

**Re: Proposed Fees for the December 31, 2019 Actuarial Funding Valuation of the City of Brighton Retiree Health Care Plan and June 30, 2020 and June 30, 2021 GASB Accounting Reports**

Dear Ms. Gomolka:

Gabriel, Roeder, Smith & Company (GRS) would be pleased to provide actuarial and consulting services for the City of Brighton Retiree Health Care Plan. This engagement letter describes the scope of services and fees for preparing an actuarial funding valuation of the retiree health care benefits and two GASB accounting reports. Also included is a list of data items that will be needed to complete the actuarial funding valuation.

**GRS Background in Health Care Consulting**

GRS specializes in assessing complex health care and benefit issues. GRS has extensive experience in the design, evaluation, pricing, financing, and implementation of retiree health care benefit programs, particularly retiree health care plans sponsored by state and local governments. We have a thorough understanding and hands-on experience with the health care marketplace, both nationally and regionally. Our expertise and insight into public employee retirement systems are highlighted by the fact that our consultants and actuaries have experience in benefit design, managed care strategies, plan administration and legislative issues, as well as valuation related services.

## Scope of Services

### Actuarial Funding Valuation

In order to prepare the necessary information, we will need to prepare an actuarial funding valuation of the retiree health care benefits for the City of Brighton Retiree Health Care Plan, as of December 31, 2019. The actuarial funding valuation will encompass the phases indicated below:

- Determination of the:
  - Actuarial present value of projected benefits
  - Actuarial accrued liability
  - Actuarial value of assets
  - Unfunded actuarial accrued liability
  - Normal cost
  - Actuarially Determined Contribution for the fiscal years ending June 30, 2020, June 30, 2021 and June 30, 2022
- The actuarial retiree health care valuation will be based on a health care trend assumption, and include the following:
  - One contribution rate with assets;
  - Two sets of initial per capita costs based on up to six distinct retiree medical plans (one for current retirees and one for future retirees);
  - The retiree health plan is fully-insured with Blue Care Network and Blue Cross Blue Shield pre-65. Post-65 the retiree health plan is a Medicare Advantage Plan through Blue Cross Blue Shield. In addition, the City has retiree health plan offers fully-insured dental and vision plans;
  - We will prepare our calculations using one interest rate assumption which is consistent with the investment policy of the Plan, and which is approved by the Plan Sponsor; and
  - We will prepare our calculations using one set of assumptions which is approved by the Plan Sponsor after consultation with the actuary. This includes the potential use of assumptions compliant with the most recent PA 202 uniform assumptions.
- Our fees do not include any meetings, additional studies for changes in benefits, or any other items not detailed in this letter. If the City would like to meet to discuss the results of the valuation, GRS will charge for the meetings based on time and expense. The standard hourly rate for this would range from \$236-\$420 per hour.



## **GASB Accounting Report**

In order to prepare the necessary information for the fiscal years ending June 30, 2020 and June 30, 2021, for GASB Statement Nos. 74 and 75, we will need to prepare additional accounting reports of the retiree health care benefits for the City of Brighton Retiree Health Care Plan. The accounting reports will be provided following the availability of the necessary information and the end of the applicable fiscal year. The GASB Statement Nos. 74 and 75 reports will include, but are not limited to, the following information:

### **GASB Statement Nos. 74 and 75 Reporting:**

- Determination of the Single Discount Rate;
- Statement of Changes in the Net OPEB Liability and Related Ratios, using the Single Discount Rate as determined above;
- Schedule of Net OPEB Liability;
- Schedule of Actuarially Determined Contributions (and notes);
- Statement of Fiduciary Net Position and Changes in Fiduciary Net Position;
- A sensitivity analysis providing the Net OPEB Liability based on a 1% higher and 1% lower discount rate and a 1% higher and 1% lower health care trend assumption;
- A description of the types of benefits provided by the plan;
- The number and classes of employees covered by the benefit terms;
- OPEB Expense calculation which separately tracks annual gains and losses due to demographic experience, asset experience, assumption changes, and plan changes; and
- Deferred Outflows and Inflows of Resources related to OPEBs.

Note that there is still other information not listed above that will be required in the Plan's financial statements and/or the CAFR to fully comply with GASB Statement Nos. 74 and 75. This additional information will need to be provided by the Plan's investment consultant and its accountants or other financial statement preparers. This other information includes the annual money-weighted rate of return on OPEB plan investments. If the Plan's investment consultant and its accountant are unable to provide this calculation GRS can provide it, for an additional fee. Please let us know if you require GRS to perform the calculation.



### **Adjust Blended Fully-Insured Premium Rate**

In fully-insured ratings, actives and non-Medicare retirees are often assigned the same rate. Since health risk and utilization of medical services increases with age, this practice produces an implied subsidy to the retiree population. The Society of Actuaries' Actuarial Standards of Practice require the use of "true" retiree cost in retiree health care valuations. GRS will develop the retiree premiums associated with each individual age by adjusting the blended fully-insured rates with the ratio of the expected cost at that age and the expected cost at the average age of the blended active and non-Medicare eligible population.

### **Professional Consulting Staff**

The GRS team assigned to the actuarial valuation of the retiree health care benefits for the City has extensive experience and expertise in retirement plans, health care benefits, and their associated costs. The team will include members with the following credentials listed below:

- A qualified health actuary who is either an Associate of the Society of Actuaries (ASA), or a Fellow of the Society of Actuaries (FSA). This individual will be responsible for analyzing your premiums and/or claims experience, determining a per person health care cost appropriate for your Plan, and determining the appropriate health inflation assumption to be used in your actuarial valuation.
- A qualified OPEB actuary who is either an Associate of the Society of Actuaries (ASA), a Fellow of the Society of Actuaries (FSA), or an Enrolled Actuary (EA). This individual will be responsible for calculating the liabilities and the Actuarially Determined Contribution.

The Actuarial Standards require that any actuary providing a Statement of Actuarial Opinion (SAO) be qualified to do so. The actuaries certifying the City's actuarial valuation must be qualified to provide the SAO. The GRS actuaries assigned to the project satisfy the above requirements.



**Consulting Fees**

Gabriel, Roeder, Smith & Company’s professional consulting fees are based on the time spent by our associates in performing these services for you. The table below shows our proposed fees broken down by Valuation Project:

Valuation Project	Fees <sup>1</sup>
1. Actuarial Funding Valuation as of 12/31/2019	\$11,000
2. GASB Report (based on 12/31/2019 actuarial funding valuation) In accordance with GASB Statement Nos. 74 and 75 for FYE 6/30/2020 <sup>2</sup>	6,000
3. GASB Report (based on 12/31/2019 actuarial funding valuation) In accordance with GASB Statement Nos. 74 and 75 for FYE 6/30/2021 <sup>2</sup>	6,000
4. PA 202 – Uniform Assumption Results <sup>3</sup>	2,500
Timing: Projected delivery 12-16 weeks after receiving clean and complete data for Item 1 and 4-6 weeks for Items 2 and 3. Item 4 is included as part of items 2 and 3.	

<sup>1</sup> The fees above will be charged following the completion of each project listed.

<sup>2</sup> Additional fees may apply if there have been significant changes to the Plan since the Actuarial Funding Valuation was completed or there are component units.

<sup>3</sup> Please note that due to Public Act 202, all Local Units of Government must provide figures for uniform reporting on Form 5572 submissions for the State of Michigan. In order to generate the information necessary for PA 202 uniform assumption reporting, the City could consider using the uniform assumptions as the funding valuation assumptions. If the City would prefer to use funding valuation assumptions which differ from the PA 202 uniform assumptions, a supplemental calculation for uniform assumption reporting purposes would be necessary. The cost for this additional calculation is noted above for each valuation cycle, absent changes in the uniform assumptions and benefit provisions.

The fees provided above are based on a biennial valuation cycle where roll-forward techniques will be applied to the December 31, 2019 funding valuation for the purpose of preparing the information for GASB Statement Nos. 74 and 75 for the fiscal years ending June 30, 2020 and June 30, 2021.

A high-quality valuation must be based on accurate member data, benefit cost data and plan design information. We base all of our calculations on this information which is supplied by the Plan Sponsor and their designees. If, after commencement of the valuation, it is determined that some of the information is inaccurate or incomplete requiring re-work on our part, we will increase our fees based on actual time spent on the additional work.



Ms. Gretchen Gomolka  
March 12, 2020  
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### **Project Timing**

We are prepared to initiate the funding valuation upon receipt of the data and following your approval of the proposal. We project that an actuarial funding valuation will be delivered twelve to sixteen weeks after receipt of clean and complete data. The consulting fees included in this engagement letter are guaranteed for one year.

Please do not hesitate to contact us at 1-248-799-9000 should you need additional information or clarification. We look forward to assisting the City of Brighton in the valuation of its retiree health care benefits.

Respectfully submitted,



Shana M. Neeson, ASA, FCA, MAAA

SMN:bd  
Enclosure



# Acceptance of Letter of Engagement

The undersigned hereby authorizes Gabriel, Roeder, Smith & Company to commence work on the selected items below as outlined in the proposal dated March 12, 2020.

**Acceptance for: City of Brighton Retiree Health Care Plan**

**By:** \_\_\_\_\_

**Printed Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Please indicate which services the City of Brighton would like to approve.

\_\_\_\_\_ December 31, 2019 Actuarial Funding Valuation

\_\_\_\_\_ June 30, 2020 GASB Statement Nos. 74 and 75 Report

\_\_\_\_\_ June 30, 2021 GASB Statement Nos. 74 and 75 Report

\_\_\_\_\_ PA 202 Uniform Assumption Calculation

## Report Distribution List

We plan to mail the funding valuation report to the following recipient. Please indicate how many copies of the report you would like sent to the following recipient and if you would like to add any different recipients to the mailing list.

Ms. Gretchen Gomolka, Finance Director  
City of Brighton  
200 North First Street  
Brighton, MI 48116

Would you like a copy/copies of the report mailed to this person?

\_\_\_\_\_ Yes \_\_\_\_\_ No                      Number of copies to be sent \_\_\_\_\_

Would you like a copy emailed?

\_\_\_\_\_ Yes \_\_\_\_\_ No                      If so, email address: \_\_\_\_\_

Please indicate the following information, if you wish to have a copy of the report mailed to a different recipient:

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

\_\_\_\_\_

Number of copies to be sent: \_\_\_\_\_

Would you like a copy emailed?

\_\_\_\_\_ Yes \_\_\_\_\_ No                      If so, email address: \_\_\_\_\_

# City of Brighton

## Retiree Health Care Plan

### Data Request

Upon acceptance of the Letter of Engagement, the elements included on the following pages are necessary in order to complete the actuarial funding valuation.

For security purposes, we request that all file transfers occur via the secure file transfer portion of the GRS Advantage™ Website. Information related to using GRS Advantage™ is provided below. Please follow the instructions below to register or access the GRS Advantage™ Website. The reference guide mentioned below details how to download and upload files to the site.

#### **GRS Advantage™ Website**

Access or activate your personalized account on the GRS Advantage™ Website

- I. Go to <https://advantage.gabrielroeder.com>
- II. Download and open the GRS Advantage user reference guide (<https://advantage.gabrielroeder.com/Documents/Help/GRSAdvantageUserReferenceGuide.pdf>)
  - a. Follow along with the “GRS Advantage Website - Requesting Access to the Website” help topic to activate your account and personalize your password.
  - b. Read over the “GRS Advantage Website - Using the GRS Advantage™ Website” help topic, specifically item “2.” which describes the navigation bar.
  - c. Read over the “Secure File Transfer” section, which describes how to send and retrieve file transfers.

#### **Demographic Data Requirements**

In order to complete the valuation, a listing will be needed containing the necessary member census information (active, deferred vested (if applicable), and retired). Following approval of our proposal, we will provide an excel spreadsheet requesting the necessary information. The data will be collected via the GRS Advantage™ Website.

#### **Plan Provisions**

Benefit provision changes since the December 31, 2008 valuation have been reported via an e-mail message dated February 26, 2020.

#### **Asset Information and Pay-As-You-Go Cost**

Following approval of our fees we will provide a spreadsheet for purposes of providing the December 31, 2019 asset information and pay-as-you-go cost information.



# City of Brighton Retiree Health Care Plan Data Request

## OPEB Initial Per-Capita Cost Information

Please provide all data electronically, where available.

1. Please explain which groups/divisions are available for current and future retirees. If more than one group/division is still available, please explain what would cause a retiree to choose one group/division over another. We believe the easiest way to present this information is to provide a table similar to the table below. The information in the table is an example.

### OPEB Group: **Sample**

Retiree Group/Division	Offered to Pre-65 and Post-65 Retirees?	Applicable Group	Anticipated Plan Design Changes?	Eligible Active Division(s)/Plan(s)*	Comments **
0001	Pre-65 only	Retired before Jan. 1, 2006	None	Closed to future retirees	
0002	Pre-65 only	Retired on or after Dec. 31, 1995	7/1/2008 - will change Rx Copay to \$10/\$40	0001, 0002 & 0003	
0015	Post-65 only	Retired any time	None	Open to all current/future retirees	

\* Please list which active division(s)/plan(s) are eligible to retire into each corresponding retiree division. Note that multiple retiree divisions/plans may be available to each active division/plan.

\*\* Enter any additional information which you feel may be relevant.

2. Please explain any major changes to the Retiree Health plan (e.g., changes in copays, deductibles, change from fully-insured to self-insured, introduction to high deductible health plans, etc.) in the past three years.
3. Please provide a summary of Health Care Coverage Plan Provisions for each health care option. For example, please list copays, and deductibles for the PPO, HMO, etc. If a summary is not available, a member booklet should suffice.
4. Please provide us with the 2020 fully-insured monthly active and retiree premium rates for one person and two-person coverage. For the retirees, we would like both pre-65 (regular premium rates) and post-65 (complementary premium rates). If available, it would be helpful to have the premium rate broken down by coverage component (i.e., medical, prescription drug, dental, and/or vision).  
Please provide the annual Rate Sheet for each group/division from your provider. For all Rate Sheets submitted, please indicate the full period these rates are effective. Billing statements do not contain the information needed; therefore, they are not necessary to send.
5. Please provide the amount of the Health Insurer Fee (HIF) included in the 2020 fully-insured monthly active and retiree premium rates. Please indicate the amount of the HIF separately for pre-65 and post-65 coverage.