OAKLAND COUNTY VEBA

ACTUARIAL FUNDING POLICY

I. GENERAL

A. Purpose

(1) In accordance with its fiduciary duty for the administration and management of the Oakland County VEBA (the "VEBA"), and consistent with established actuarial standards of practice, the Oakland County VEBA Board (the "VEBA Board") desires to establish a formal Actuarial Funding Policy to ensure the systematic funding of future retiree healthcare obligations of the VEBA.

B. Background

(1) The VEBA is a qualified voluntary employees' beneficiary association under section 501(c)(9) of the Internal Revenue Code that was established as of October 1, 2000, to pre-fund the medical and similar health and welfare benefits for retired employees of Oakland County (the "County"), and their spouses and eligible dependents provided under the Oakland County Retiree Health Care Plan (the "Plan").

(2) The VEBA is governed in accordance with the provisions of the Oakland County VEBA Trust Agreement (the "Trust Agreement"), as may be amended from time to time, and applicable state and federal laws including, without limitation, the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999, as amended (MCL 38.1211 *et seq.*).

C. Policy Objectives

(1) Maintain adequate levels of assets sufficient to fund all benefits expected to be paid to members and beneficiaries when due.

(2) Maintain stability of employer contributions, if necessary, consistent with other funding objectives.

(3) Support the public policy goals of accountability and transparency.

(4) Monitor material risks to assist in any risk management strategies the VEBA Board deems appropriate.

(5) Promote reasonable and equitable allocation of the cost of benefits over time.

(6) Provide a reasonable margin for adverse experience to offset risk.

(7) Review the VEBA's investment return assumption, potentially in conjunction with a periodic asset liability study and in consideration of the VEBA Board's risk profile.

(8) Maintain the VEBA's fully funded status.

II. LEGAL

A. Annual Contributions

(1) Pursuant to Section 2.2(a) of the VEBA Trust Agreement, the County is required to annually contribute "the amount required to pay for retiree health benefits for the current year . . . for current retirees receiving benefits through the VEBA, to the extent such amounts were not previously funded, and taking into account any amounts payable by such retirees, their spouses or dependents under the terms of the Plan.

(2) The County may, in its discretion, contribute to the VEBA an amount necessary to amortize the VEBA's unfunded accrued liability on an actuarially determined basis as determined by the VEBA Board.

(a) The VEBA Board shall have an annual actuarial valuation performed with VEBA assets valued on a market-related basis. The actuarial present value of total projected benefits shall include all benefits to be provided to members or beneficiaries pursuant to the terms of the Plan.

B. Summary Retiree Health Care Report

(1) Pursuant to Section 4(1)(b) of the Protecting Local Government Retirement and Benefits Act [MCL 38.2804(1)(b)], Public Act 202 of 2017, as amended ("PA 202"), the County is annually required to submit a summary retiree health care report to the Department of Treasury and Board of County Commissioners no later than six months after the end of the County's fiscal year. The report must include:

(a) The name of the VEBA;
(b) The names of the VEBA's investment fiduciaries;
(c) The names of the VEBA's service providers;
(d) The VEBA's assets and liabilities and changes in net plan assets on a fiscal year basis;
(e) The VEBA's funded ratio on a fiscal year basis;
(f) The VEBA's assumed rate of investment return;
(g) The VEBA's actual rate of return for the previous 1, 5, and 10-year periods;
(h) The VEBA's discount rate;
(i) The VEBA's amortization method, indicating whether it is open or closed;
(j) The VEBA's amortization method, indicating whether it is level percent or level dollar, and the assumed payroll growth rate;
(k) The VEBA's remaining amortization time period;
(l) The annual required contribution to the VEBA, indicating the normal cost and the amortization payment toward the unfunded actuarial accrued liability;
(m) The VEBA's health care inflation assumptions;

(n) The number of active employees and retirees participating in the VEBA; and
(o) The amount of premiums paid on behalf of retirees in the VEBA.

C. Reporting Under Public Act 202 of 2017

(1) Pursuant to Section 5(6) of PA 202 [38.2805(6)], the County is annually required to submit an electronic report to the Department of Treasury no later than six months following the end of the County's fiscal year. The report must include the following information:

(a) The funded ratio of the VEBA using the uniform actuarial assumptions established by the State Treasurer;
(b) The County's annual required contribution to the VEBA; and
(c) The County's annual general fund operating revenues, if any.

(2) The Retirement Administrator shall compile and report all information required under PA 202.

(3) Any and all costs incurred as a result of the additional reporting required under PA 202 shall be deemed an expense of the VEBA and paid in accordance with its customary practice.

III. POLICY

A. Actuarial Cost Method

(1) The individual entry age actuarial cost method of valuation shall be utilized in determining the normal cost for members and beneficiaries.

(2) Differences in the past between assumed experience and actual experience (actuarial gains and losses) shall be amortized over a reasonable period as determined by the VEBA Board in consultation with its Actuary.

B. Asset Smoothing Method

(1) The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over a period not to exceed five (5) years in calculating the funding value of assets.

C. Amortization Method

(1) A level dollar amortization method shall be used to systematically pay off any unfunded actuarial accrued liabilities over an amortization reasonable period as determined by the VEBA Board in consultation with its Actuary, but not to exceed 30 years.

D. Assumptions

(1) The economic and demographic actuarial assumptions utilized to determine the contribution requirements and benefit values of the VEBA shall be determined by the VEBA Board in consultation with its actuary, subject to the following limitations:

(a) The assumed rate of investment return (discount rate) shall not exceed 7.25%, compounded annually;

(b) Mortality shall be based on a version of the RP-2014 Mortality Table or a more recent table; and

E. Funding Target

(1) The targeted funded ratio of the VEBA shall be at least 100%.

F. Risk Management

(1) Assumption Changes

(a) The actuarial assumptions utilized to determine the annual contribution requirements and valuations shall be those last adopted by the VEBA Board based on the most recent experience study and upon the advice and recommendation of the VEBA's actuary. The VEBA's actuary shall conduct an experience study every five years. The results of the experience study shall be the basis for the actuarial assumptions recommended to the VEBA Board.

(b) The actuarial assumptions may be revised during the five-year period between experience studies if significant plan design changes, asset allocation changes, or other significant economic events occur, as advised by the actuary.

(2) Risk Measures. The following risk measures will be annually determined by the VEBA's actuary to provide quantifiable measurements of risk as it applies to the VEBA.

(a) Funded ratio;

(b) Total unfunded actuarial accrued liabilities as a percentage of total payroll of VEBA participants;

(c) Total assets as a percentage of total payroll of VEBA participants; and

(d) Total actuarial accrued liabilities as a percentage of total payroll of VEBA participants.

(3) Risk Control

(a) The VEBA Board shall carefully monitor the risk measures identified above and shall consider steps to mitigate risk, particularly as the funded ratio increases.

IV. REVIEW AND AMENDMENT

A. Periodic Review

(1) This Actuarial Funding Policy shall be reviewed no less frequently than once every five years in conjunction with the required experience study performed by the VEBA's actuary, and may be reviewed at any time in the VEBA Board's discretion.

B. B. Review of Actuary

(1) Pursuant to Section 4(1)(d) of Public Act 202 of 2017, as amended [MCL 38.2804(1)(d)], at least once every eight years the VEBA Board shall:

(a) have a peer actuarial audit conducted by an actuary that is not the VEBA actuary; or

(b) replace the VEBA's actuary.

C. Amendment

(1) The VEBA Board, in consultation with its Actuary and Legal Counsel, may amend this Actuarial Funding Policy at any time as deemed necessary to address changes in the makeup, benefit structure and/or funding status of the VEBA.