

This Corrective Action Plan (CAP) only includes the Bay County General County Group, the Bay County Sheriff's Department Group and the Bay County Medical Care Facility Group.

General County Group and Sheriff Department Group

This plan is closed to any new employees hired on or after 1/1/2012 for the General County and Sheriff Department Groups.

Medical Care Facility Group

The plan is closed to any new employees hired on or after 1/15/2010 for the Medical Care Facility Group.

Based on review of the 2017 Retirement System Annual Report, Michigan Department of Treasury form 5572, pursuant to Public Act 202, it was determined that our Voluntary Employees' Beneficiary Association (VEBA) plan to be underfunded. The State of Michigan's threshold for funded status is 40% of the Plan's liability.

General County Group and Sheriff Department Group

Within the PA202 funding report as of 12/31/17 (based on our OPEB valuation report dated 12/31/15), Bay County VEBA had a funding ratio of:

- ✓ 17.7% for the General County Group
- ✓ 20.2% for the Sheriff's Department Group

Bay County's current updated Actuarial Valuation Report as of December 31, 2017 identifies the following funding levels:

- ✓ 30.4% for the General County Group
- ✓ 35.1% for the Sheriff's Department Group

The General Group has 326 active members, which includes 116 employees hired after 1/1/2012.

The Sheriff's Group has 77 active members with 27 employees hired after 1/1/2012.

All employees hired on or after 1/1/2012 are excluded in all attached financial computations.

Medical Care Facility Group

The Medical Care Facility Group has a funding ratio of:

- ✓ 17.8% for the Medical Care Facility Group

Bay County's current updated Actuarial Valuation Report as of December 31, 2017 identifies the following funding levels:

- ✓ 29.2% for the Medical Care Facility Group

The Medical Care Facility Group has 256 active members, which includes 155 employees hired after 1/15/2010. All employees hired on or after 1/15/2010 are excluded in all attached financial computations.

CHANGES MADE TO VEBA PLAN:

All Groups

1. The VEBA Board of Trustees approved increasing the long-term assumed rate of investment return from 5.00% to 7.00%. One of the key assumptions used in the valuation process of the cost of postemployment health benefits is the rate of return on assets that will be used to pay Plan benefits. A higher assumed investment rate will result in a lower Actuarially Computed Employer Contribution. The new 7.00% rate of investment return was used in calculating our current Actuarial Valuation Report dated 12/31/17.
2. Our actuaries, GRS Retirement Consulting, have also updated the mortality tables and demographic assumptions to be more consistent with our pension assumptions. These adjustments were included in our December 31, 2017 valuation report.
3. The VEBA Board of Trustees has currently updated its Investment Policy to be more in-line and more aggressive in investments mirroring Bay County Employee's Retirement Trust Fund, which is over 100% funded. As of 2018, The VEBA Trust Fund added a Real Estate Manager and is currently adding a Small and a Mid Cap Managers, in hopes to increase our investment income – rate of return.

General County Group and Sheriff Department Group

1. Bay County Board of Commissioners approved a one-time lump sum contribution of \$1,464,000 in the 2018 Budget process.
2. Also included in the 2018 Budget, the Board approved a monthly contribution of 6% of payroll for all employees who qualify for future participation in the VEBA plan. This monthly amount varies as vacant positions are not considered, but is estimated at an additional \$70,500 per month. The additional monthly amount will be reviewed annually during the budget process, but at this point, the additional contribution is expected to continue. Please see attached Board Resolution number 2017-285.

Medical Care Facility Group

1. Converted all current retirees age 65 years or older to Medicare Advantage plan in 2018.

2. All future retirees will be required to enroll in the Medicare Advantage Plan.
3. Increase contributions to \$510,587 in 2018.
4. Budgeted contributions of \$463,986 in 2019.
5. Continue to make Pay-As-You-Go payments.

REASONABLE TIME FRAME:

General County Group and Sheriff Department Group

The attached Bay County VEBA Plan Estimated schedule, which indicates that Bay County's General Group will achieve a funded ratio of 40% by its fiscal year ending 2021. The VEBA plan would be paying the Benefit / Pay as you Go payment and contribute the Additional Contribution per year, which exceeds the yearly Normal Cost projection.

As per the attached Bay County VEBA Plan Estimated schedule, which indicates that the County Sheriff's Group will achieve a funded ratio of 40% by its fiscal year ending 2018. The plan would be paying the Benefit / Pay as you Go payment plus contribute the Additional Contribution per year, which exceeds the yearly Normal Cost projection.

Since both the General County group and the County Sheriff's group are closed groups, there is no additional Normal Cost calculation for newly hired employees.

See the attached Bay County Board of Commissioners Resolution No. 2019- 80 approving the Corrective Action Plan.

Medical Care Facility Group

Per the attached Retirement Health Benefits System (OPEB/VEBA) Analysis, the Medical Care Facility Group is anticipated to attain a 40% funded ratio by fiscal year ending December 31, 2022.

Beginning in 2023 the Medical Care Facility Group plans on contributing \$1,000,000 per year until fully funded at 100%.

As the Medical Care Facility Group is closed to new participants, its normal cost should decline in future years.

See attached Bay County Department of Health & Human Services Board Resolution No. 2019-01 approving their Corrective Action Plan.

CAP SUMMARY:

Bay County is confident that based on the above listed changes it has made to its Voluntary Employees' Beneficiary Association (VEBA) Plan, that we will see an increase in our annual investment rate of return and position ourselves to increase our investment potential in the current market place.

Bay County Voluntary Employees' Beneficiary (VEBA) Retiree Health Care Plan consists of employers from Department of Water and Sewer, Library, Road Commission, Medical Care Facility, Bay County and Bay Area Behavioral Health (BABH). These employers are working directly with their individual Board of Directors in order to meet the required 40% funding compliance. The VEBA Plan (other than BABH) in total as of 12/31/17 is funded at 27.9%. With all of the positive efforts being put forth into this plan, we believe that overall we will strive to reach our required 40% funding within the next ten years. The employer, BABH, is reported separately and is currently in compliance as they exceed 100% funding status.

The Bay County VEBA Board of Trustees is actively monitoring its investments and rebalancing assets to continually increase the value of our plan assets.

Bay County will continue to take into account and review the required funding status during our annual budget process. Bay County is committed to provide medical benefits for its retired employees, their spouses and dependents of Bay County and its Component Units.

Respectfully Submitted:



Jan Histed, Bay County Finance Officer