

Midland County
Employees Retirement System
Annual Actuarial Valuation
December 31, 2018

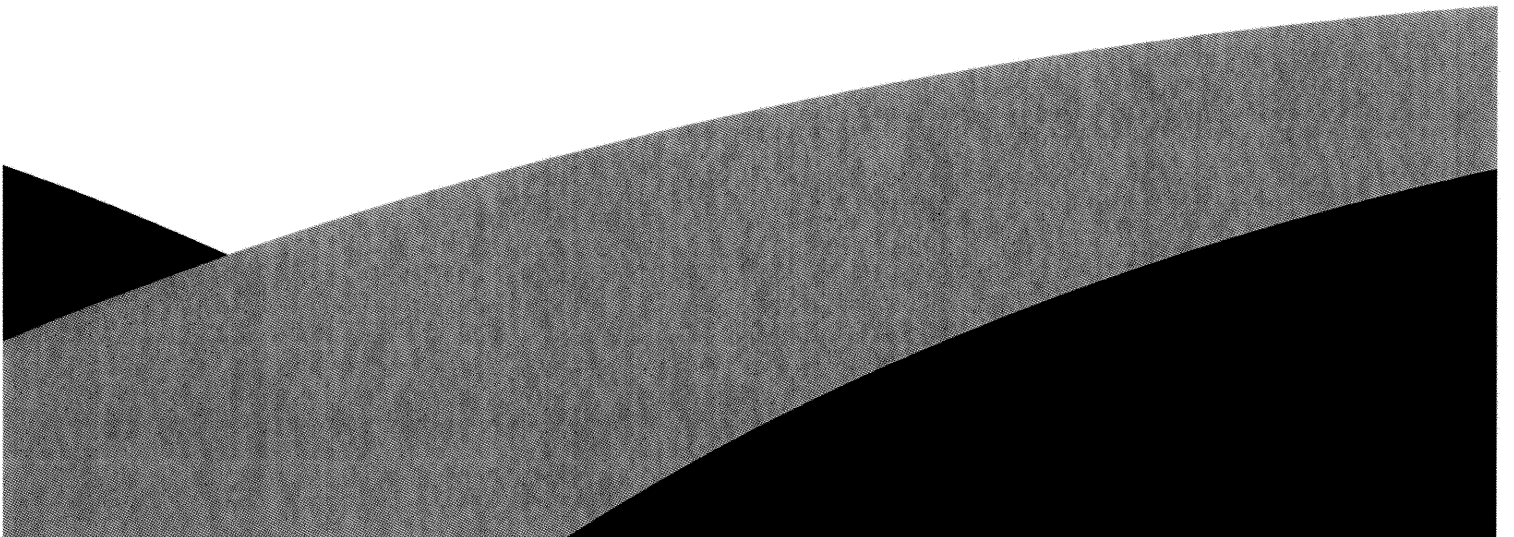


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July 23, 2019

Board of Trustees
Midland County Employees Retirement System
220 W. Ellsworth Street
Midland, Michigan 48640-5194

Dear Board Members:

The results of the December 31, 2018 annual actuarial valuation of the Midland County Employees Retirement System are presented in this report. The purpose of the valuation was to measure the System's funding progress and to determine the employer contribution for the 2020 fiscal year. This report should not be relied upon for any other purpose. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The valuation was based upon the actuarial assumptions and methods adopted by the Board, information furnished by the County, concerning Retirement System benefits, financial transactions, individual members, terminated members, retirees and beneficiaries. Data was checked for internal and year-to-year consistency, but was not audited by us. As a result, we are unable to assume responsibility for the accuracy or completeness of the data provided.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

The contribution shown on page B-2 and elsewhere in this report may be considered a minimum contribution. Contributions made at this level do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System at higher levels than shown in this report be considered.

Board of Trustees

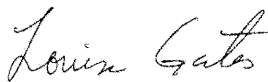
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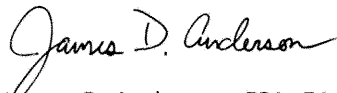
The fiscal 2020 contribution amount shown in this report was determined using the actuarial assumptions and methods shown in Section D of this report. This report includes risk metrics on pages C-3 and E-1 but does not include additional risk metrics such as those that assess the risk of future experience not meeting the actuarial assumptions. These additional risk assessments were beyond the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material impact on the plan's financial condition. This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed

To the best of our knowledge, this report is complete, accurate and the valuation was conducted in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the applicable state statutes. The undersigned are independent of the plan sponsor. Louise M. Gates and James D. Anderson are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. It is our opinion that the actuarial assumptions used for the valuation produce results which are reasonable.

Respectfully submitted,



Louise M. Gates, ASA, FCA, MAAA



James D. Anderson, FSA, EA, FCA, MAAA



SECTION A

EXECUTIVE SUMMARY

1. Required Employer Contributions - Fiscal Year Beginning January 1, 2020

Computed County contributions for fiscal year 2020 and 2019 are shown below:

Contributions for the Indicated Fiscal Year	\$ Amount
All divisions (2020)	\$931,066
All divisions (2019)	\$837,372

2. Reasons for Change

The actuarial cost method has been chosen with the intent of producing employer contributions that are fairly level. In a closed plan, the normal cost dollar amount is expected to trend downward as active members retire and terminate employment for other reasons. A major factor affecting the stability of the contributions is how well actual plan experience compares to actuarial assumptions. The value of this difference is called an actuarial gain or loss. Gains tend to lower the contributions and losses tend to increase them. In addition to actuarial gains and losses, changes in the benefits (or benefit eligibility) and changes in actuarial assumptions/methods also affect employer contributions. No changes in System benefits or assumptions/methods were reflected in this valuation.

3. 2018 Plan Year Experience

The experience of the System during calendar year 2018 was overall, unfavorable. The investment return on System assets was lower than long term expectations. The market smoothing techniques used in this valuation of the System recognize only a portion of the current and prior year's investment experience. As a result, the recognized rate of return on System assets was 4.08%. In addition, the retiree liabilities were larger than anticipated by actuarial assumptions which contributed to the unfavorable experience during the year.

4. System Funded Percent

The System's funded percent based on the total actuarial value of assets is 91.6% as of December 31, 2018. Last year the percent was 94.9%. If the market value of assets was used to determine the System's funding percent as of December 31, 2018 the result would be a funded percent of 85.4%. Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the total actuarial value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

- The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations
- The measurement is inappropriate for assessing the need for or the amount of future employer contributions
- The measurement would produce a different result if the market value of assets were used instead of the total actuarial value of assets

5. Other

This valuation of the System reflects the use of \$1.14 million from the Unallocated Income Reserve (UIR) in the determination of employer contributions for fiscal 2020. As a result, the balance in the UIR is now \$0.

6. Recommendations

Michigan Public Act 202 of 2017 has created new reporting and other requirements for local units of government. The Retirement Board may be asked to assist the County in its efforts to comply with these new requirements. We recommend that the Board develop a policy to document System responsibilities to facilitate compliance.

Given the current economic environment and the closed nature of the System, we recommend a review of the economic assumptions used in the annual valuations of the System.

As of the valuation date, the value of retiree liabilities exceeds the market value of assets held in the Retired Benefit Payment Reserve. As a result, a transfer from the Employer Contribution Reserve to the Retired Benefit Payment Reserve is required. This is summarized below:

Retiree Liabilities	\$41,597,654
Retired Benefit Payment Reserve	<u>23,714,640</u>
Transfer Amount	\$17,883,014

We recommend that the Board authorize these reserve transfers.

7. Expectations

Given the System's contribution allocation procedure, if all actuarial assumptions are met (including the investment return assumption) then the following outcomes are expected:

- The employer normal cost contribution is expected to decrease over time, given the closed nature of the System.
- The unfunded accrued liability is expected to be paid off in approximately 16 years (from FY 2020).
- The funded status of the System is expected to reach 100% in approximately 16 years (the number of years remaining in the amortization schedule).