

CITY OF MAINSTREET
GASB 74/75 REPORT

ACTUARIAL VALUATION
AS OF JANUARY 1, 2015

MEASUREMENT DATE
AS OF DECEMBER 31, 2015



May 3, 2017

Introduction

This report presents the results of the January 1, 2015 actuarial valuation of the post-employment benefits (other than pensions) provided by the City of Mainstreet. In this report, these benefits are referred to as "Other Post-Employment Benefits" or "OPEB". The valuation is based upon the participant data and asset information provided as of January 1, 2015 by the City of Mainstreet. Except for a cursory review for reasonableness, we have not attempted to verify the accuracy of this information. The primary purpose of this report is to provide accounting disclosures as of December 31, 2015 (the "measurement date") pursuant to Governmental Accounting Standards Board Statement Nos. 74 and 75 (GASB 74/75) in connection with the City's financial statements as of December 31, 2016 (the "reporting date").

The liabilities and cost presented in this report are based on numerous assumptions concerning the cost of benefits to be provided in the future, long-term investment returns, and the future demographic experience of the current participants. Anyone referring to this report should remember that the cost developed herein is only an *estimate* of the true cost of providing OPEB. No one can predict with certainty whether the true cost will be higher or lower than the cost presented in this report. The calculated cost is entirely dependent upon the described assumptions. If any of the assumptions is changed, then the cost shown in this report will change accordingly. Likewise, if any of the assumptions is not completely realized, then the cost shown in this report will change in the future.

Certain assumptions play a bigger role than others in determining the cost of the OPEB. In some cases, relatively small changes in a particular assumption can have a dramatic impact on the anticipated cost of benefits. Although a thorough analysis of the impact of such changes is beyond the scope of this report, GASB 74/75 requires disclosure of the impact of a 1% decrease or increase in the discount rate and a 1% decrease or increase in the healthcare cost trend rates.

Certification

This actuarial valuation was prepared by me or under my direct supervision and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate and, in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of GASB 74/75 and the relevant Actuarial Standards of Practice issued by the Actuarial Standards Board. There is no post-employment benefit or expense to be provided by the City and/or paid from the trust's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material change in plan costs or required contribution rates have been taken into account in the valuation.

For the firm,

Charles T. Carr
Consulting Actuary
Southern Actuarial Services Company, Inc.

The individual above is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS

NET OPEB LIABILITY AS OF DECEMBER 31, 2015

Total OPEB liability	\$33,110,465 *
Less fiduciary net position	<u>(4,101,366)</u>
Net OPEB liability	<u>\$29,009,099</u> **

* This amount has been rolled forward from January 1, 2015.

** This amount is recognized on the employer's balance sheet.

OPEB EXPENSE FOR THE 2015 FISCAL YEAR

Service cost	\$817,281
Other recognized changes in net pension liability:	
Expected interest growth	619,044
Investment gain/loss	53,963
Demographic gain/loss	0
Employee contributions	(177,136)
Administrative expenses	15,414
Changes in benefit terms	0
Assumption changes	<u>0</u>
OPEB expense	<u>\$1,328,566</u> *

* This amount is recognized on the employer's income statement, along with the employer contribution for the 2015 fiscal year.

DEFERRED INFLOW AND OUTFLOW OF RESOURCES

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Balance as of December 31, 2014	\$0	\$0
Change due to:		
Amortization payments	\$(53,963)	\$0
Investment gain/loss	\$269,815	\$0
Demographic gain/loss	\$0	\$0
Assumption changes	<u>\$0</u>	<u>\$0</u>
Total change	\$215,852	\$0
Balance as of December 31, 2015	\$215,852 *	\$0 *

* These amounts are recognized on the employer's balance sheet.

BALANCE EQUATION

Net OPEB liability as of December 31, 2014	\$27,464,681
Plus OPEB expense for the 2015 fiscal year	\$1,328,566
Minus employer contribution for the 2015 fiscal year	\$0
Plus change in balance of deferred outflows of resources	\$215,852
Minus change in balance of deferred inflows of resources	\$0
Net OPEB liability as of December 31, 2015	\$29,009,099

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

DEFERRED INFLOW AND OUTFLOW OF RESOURCES (continued)

Amortization schedule for deferred outflows and inflows of resources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Balance as of December 31, 2015	\$215,852	\$0
Amount recognized in the 2016 OPEB expense:		
<i>Investment gain/loss</i>	\$53,963	\$0
<i>Demographic gain/loss</i>	\$0	\$0
<i>Assumption changes</i>	\$0	\$0
<i>Total</i>	<u>\$53,963</u>	<u>\$0</u>
Balance as of December 31, 2016	\$161,889	\$0
Amount recognized in the 2017 OPEB expense:		
<i>Investment gain/loss</i>	\$53,963	\$0
<i>Demographic gain/loss</i>	\$0	\$0
<i>Assumption changes</i>	\$0	\$0
<i>Total</i>	<u>\$53,963</u>	<u>\$0</u>
Balance as of December 31, 2017	\$107,926	\$0
Amount recognized in the 2018 OPEB expense:		
<i>Investment gain/loss</i>	\$53,963	\$0
<i>Demographic gain/loss</i>	\$0	\$0
<i>Assumption changes</i>	\$0	\$0
<i>Total</i>	<u>\$53,963</u>	<u>\$0</u>
Balance as of December 31, 2018	\$53,963	\$0
Amount recognized in the 2019 OPEB expense:		
<i>Investment gain/loss</i>	\$53,963	\$0
<i>Demographic gain/loss</i>	\$0	\$0
<i>Assumption changes</i>	\$0	\$0
<i>Total</i>	<u>\$53,963</u>	<u>\$0</u>
Balance as of December 31, 2019	\$0	\$0
Amount recognized in the 2020 OPEB expense:		
<i>Investment gain/loss</i>	\$0	\$0
<i>Demographic gain/loss</i>	\$0	\$0
<i>Assumption changes</i>	\$0	\$0
<i>Total</i>	<u>\$0</u>	<u>\$0</u>
Balance as of December 31, 2020	\$0	\$0

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

CHANGES IN THE NET OPEB LIABILITY

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance as of December 31, 2014	\$32,051,221	\$(4,586,540)	\$27,464,681
Change due to:			
<i>Service cost</i>	\$817,281	\$0	\$817,281
<i>Expected interest growth</i>	\$962,324	\$(343,280)	\$619,044
<i>Unexpected investment income</i>	\$0	\$269,815	\$269,815
<i>Demographic experience</i>	\$0	\$0	\$0
<i>Employer contributions</i>	\$0	\$0	\$0
<i>Employee contributions</i>	\$0	\$(177,136)	\$(177,136)
<i>Benefit payments & refunds</i>	\$(720,361)	\$720,361	\$0
<i>Administrative expenses</i>	\$0	\$15,414	\$15,414
<i>Changes in benefit terms</i>	\$0	\$0	\$0
<i>Assumption changes</i>	\$0	\$0	\$0
Balance as of December 31, 2015	\$33,110,465	\$(4,101,366)	\$29,009,099

COMPARISON OF NET OPEB LIABILITY USING ALTERNATIVE DISCOUNT RATES

	Discount Rate Minus 1.00%	2.96% Discount Rate	Discount Rate Plus 1.00%
Total OPEB liability	\$36,210,430	\$33,110,465	\$30,130,790
Less fiduciary net position	<u>(4,101,366)</u>	<u>(4,101,366)</u>	<u>(4,101,366)</u>
Net OPEB liability	\$32,109,064	\$29,009,099	\$26,029,424

COMPARISON OF NET OPEB LIABILITY USING ALTERNATIVE HEALTHCARE COST TREND RATES

	Trend Rates Minus 1.00%	8.00% graded down to 5.00%	Trend Rates Plus 1.00%
Total OPEB liability	\$29,878,574	\$33,110,465	\$36,791,620
Less fiduciary net position	<u>(4,101,366)</u>	<u>(4,101,366)</u>	<u>(4,101,366)</u>
Net OPEB liability	\$25,777,208	\$29,009,099	\$32,690,254

HISTORICAL TREND INFORMATION

Measurement Date	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability	Funded Percentage	Covered Payroll	Net OPEB Liability as a % of Covered Payroll
December 31, 2015	\$33,110,465	\$4,101,366	\$29,009,099	12.39%	\$33,536,675	86.50%
December 31, 2014	\$32,051,221	\$4,586,540	\$27,464,681	14.31%	\$33,536,675	81.89%

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

HISTORICAL TREND INFORMATION (continued)

Changes in the net OPEB liability by source

Fiscal Year	Service Cost	Expected Interest Growth	Unexpected Investment Income	Demographic Experience	Employer Contributions	Employee Contributions	Benefit Payments & Refunds	Administrative Expenses	Changes In Benefit Terms	Assumption Changes
2015	\$817,281	\$619,044	\$269,815	\$0	\$0	\$(177,136)	\$0	\$15,414	\$0	\$0

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

INFORMATION USED TO DETERMINE THE NET OPEB LIABILITY

Employer's reporting date: December 31, 2016
Measurement date: December 31, 2015
Actuarial valuation date: January 1, 2015

Actuarial assumptions

Discount rate: 2.96% per annum; this rate was used to discount all future benefit payments and is based on a blend of the expected long-term return on assets (for benefit payments during the first five years after the valuation date) and a yield on 20-year Grade AA/Aa or higher municipal bonds of 2.76% per annum (for benefit payments beyond the first five years after the valuation date); both the expected long-term return on assets and the municipal bond rate were determined as of the valuation date by the trust's investment manager.

Expected long-term return on assets: 7.96% per annum (3.25% per annum is attributable to long-term inflation)

Salary increases: 3.25% per annum

Cost-of-living increases: Retiree contributions, health insurance premiums, and the implied subsidy have been assumed to increase in accordance with the healthcare cost trend rates; life insurance premiums are not assumed to increase.

Healthcare cost trend rates: Increases in healthcare costs are assumed to be 8.00% for the 2015 fiscal year graded down by 0.50% per year to 5.00% for the 2021 and later fiscal years.

Age-related morbidity: Healthcare costs are assumed to increase at the rate of 3.50% for each year of age.

Implied subsidy: Because the insurance carrier charges the same monthly rate for health insurance regardless of age, an implied monthly subsidy of \$350.00 for the retiree and \$375.00 for the retiree's spouse has been assumed at age 65 for the 2015 fiscal year; at other ages, the implied subsidy was developed based on the age-related morbidity assumption and, for other fiscal years, the implied subsidy was increased in accordance with the healthcare cost trend rates.

Mortality basis: Sex-distinct rates set forth in the RP-2000 Combined Mortality Table with full generational improvements in mortality using Scale AA

Retirement: Retirement is assumed to occur at the earliest of age 65 with five years of service, age 55 with 25 years of service, or any age with 30 years of service.

Other decrements: Assumed employment termination is based on the Scale 155 table; assumed disability is based on the Wyatt 1985 Disability Study (Class 1).

Coverage election: 100% of eligible employees are assumed to elect medical coverage upon retirement or disability; all retirees (current and future) have been assumed to continue their current health plan coverage election.

Spouses and dependents: Husbands are assumed to be three years older than wives; retirees are not assumed to have any dependent children.

COBRA: Future healthcare coverage provided solely pursuant to COBRA was not included in the OPEB valuation; because the COBRA premium is determined periodically based on plan experience, the COBRA premium to be paid by the participant is assumed to fully cover the cost of providing healthcare coverage during the relevant period.

Changes: No assumptions were changed since the prior measurement date.

DETERMINATION OF THE LONG-TERM EXPECTED RATE OF RETURN ON PLAN ASSETS

Investment Category	Target Allocation	Expected Long-Term Real Return
Domestic equities	50.00%	5.95% per annum
International equities	15.00%	6.45% per annum
Domestic fixed income	25.00%	1.55% per annum
Real estate	10.00%	3.75% per annum
Total or weighted arithmetic average	100.00%	4.71% per annum

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

OPEB PLAN DESCRIPTION

Plan sponsor and administrator: *City of Mainstreet*
Plan type: *Agent OPEB plan*
Number of covered individuals: *835 (81 inactive employees and beneficiaries currently receiving benefits; no inactive employees entitled to but not yet receiving benefits; 754 active employees)*
Contribution requirement: *Retirees must contribute an amount determined periodically by the employer; there are no minimum required employer contributions.*
OPEB trust reporting: *The trust issues a stand-alone financial report each year, which contains information about the trust's fiduciary net position. The fiduciary net position in this report has been determined on the same basis used by the trust and is equal to the market value of assets calculated under the accrual basis of accounting. This report is available to the public at the plan's administrative office: City of Mainstreet, Human Resources Department, 300 West Broad Street, Mainstreet, USA 30720, (808) 867-5309.*

Description of the benefit terms

Employees covered: *Regular, full-time employees of the City of Mainstreet*
Types of benefits offered: *Post-retirement medical benefits and life insurance coverage*
Eligibility: *Eligible employees hired prior to September 1, 2007 (medical coverage);
All eligible employees (life insurance coverage)*
Medical coverage: *Post-retirement medical coverage is provided to eligible individuals until age 65 (or for no more than five years after retirement if hired after May 31, 1998) under the same fully-insured plan that covers active employees; through the OPEB trust, the employer provides an explicit subsidy equal to the difference between the total monthly premium charged by the insurance carrier and the amount paid by retirees for coverage.*
Medical premiums (total): *For 2015, the total monthly premiums charged by the insurance carrier are \$449.84 (single coverage), \$940.18 (single plus one coverage), or \$1,394.53 (family coverage).*
Medical premiums (retiree): *For 2015, monthly retiree premiums for a non-smoker are \$84.00 (single coverage), \$252.00 (single plus one coverage), or \$353.00 (family coverage) and monthly retiree premiums for a smoker are \$136.00 (single coverage), \$306.00 (single plus one coverage), or \$409.00 (family coverage).*
Life insurance coverage: *\$25,000 of life insurance coverage is provided after retirement until age 70 under a fully-insured program; the employer pays the entire cost of this coverage through the OPEB trust.*
Life insurance premiums: *For 2015, the monthly premium is \$4.60.*
Legal authority: *The OPEB may be changed or eliminated at any time by the employer.*
Changes: *The benefit terms did not change from the prior measurement date.*

DISCLOSURES RELATED TO POST-EMPLOYMENT BENEFITS (continued)

PROJECTION OF THE FIDUCIARY NET POSITION

Date	BOY Balance	Contributions	Benefit Payments	Administrative Expenses	Investment Earnings	EOY Balance
January 1, 2015	\$4,586,540	\$177,136	\$720,361	\$15,414	\$73,465	\$4,101,366
January 1, 2016	\$4,101,366	\$222,538	\$1,262,978	\$15,915	\$285,231	\$3,330,242
January 1, 2017	\$3,330,242	\$228,038	\$1,309,890	\$16,432	\$222,212	\$2,454,170
January 1, 2018	\$2,454,170	\$239,521	\$1,383,197	\$16,966	\$150,043	\$1,443,571
January 1, 2019	\$1,443,571	\$268,256	\$1,545,995	\$17,517	\$64,344	\$212,659
January 1, 2020	\$212,659	\$303,270	\$1,728,881	\$18,086	-\$39,431	-\$1,270,469
January 1, 2021	-\$1,270,469					