GASB Notes Disclosure for the Retiree Health Funding Vehicle and Health Care Savings Program

These notes are designed to help assist finance directors in their preparation of the financial statements and Notes disclosures for GASB 75. MERS does not have the actuarial information for the OPEB calculations, rather each local government will need to perform those calculations. MERS will be providing the asset information (quarterly statements) for those employers who are enrolled in the Retiree Health Funding Vehicle and Health Care Savings Program.

Trust Overview

MERS provides a funding vehicle for municipalities to invest assets for post-employment health care through two separate plans: **Retiree Health Funding Vehicle** and the **Heath Care Savings Program**.

MERS is a statutory public corporation, independent from the State of Michigan, established by the Michigan Legislature under Public Act 135 of 1945 to provide pooled retirement plans specifically for Michigan municipalities on a voluntary basis. This act was repealed and replaced by successor Municipal Employees' Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, embodied in the MERS Plan Document (as revised). On August 15, 1996, pursuant to 1996 PA 220, MERS became independent from the State of Michigan.

Since 1996, MERS is solely administered by a nine-member retirement board. The Board consists of the following members, each of whom, except for the retiree member and the Board appointees, shall be from a different county at the time of election:

- Two members, appointed by the Board, who have knowledge or experience in retirement systems, administration of retirement systems, investment management, or advisory services;
- One member, a retiree of the System, is appointed by the Board;
- Three members, officers of participating municipalities or courts, who are elected as Officer Board Members by the delegates at the MERS Annual Business Meeting; and
- Three employee members, who are not officers of a participating municipality or court, who are elected as Employee Board Members by the delegates at the MERS Annual Business Meeting.

The regular term of office for members of the Board is three years. Members of the Board serve without compensation with respect to their duties, but are reimbursed by the System for their actual and necessary expenses incurred in the performance of their duties.

MERS is an agent multiple-employer retirement system that pools assets of the participating employers for investment purposes, but maintains separate accounts for each individual employee in the Health Care Savings Program and each individual employer in the Retiree Health Funding Vehicle.

MERS received a Private Letter Ruling dated January 13, 2004, from the Internal Revenue Service allowing the establishment of an IRC Section 115 Integral Governmental Trust, giving MERS the ability to create two programs — the Health Care Savings Program and the Retiree Health Funding Vehicle.

The MERS Health Care Savings Program became operational in June 2004 and was made available to all municipalities in Michigan. The employer-sponsored program provides medical reimbursement accounts to participants. Medical expenses are reimbursed, as defined in Code Section 213, once participants terminate employment, are on medical leave for six months or longer, or are on disability from any public pension plan. There are four types of contributions that may be used in the program: 1) Basic Employer (tax-favored); 2) Mandatory Salary Reductions (tax-favored); 3) Mandatory Leave Conversions (tax-favored); and 4) Voluntary Employee Contributions (post-tax).

As a result of the Private Letter Ruling, Code Section 213, reimbursements are tax-exempt for the participant, their spouse, and/or Code Section 152 dependent(s). The Health Care Savings Program accounts are invested in the MERS Investment Menu, and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

The MERS Retiree Health Funding Vehicle became operational in the fall of 2004, and was made available to all municipalities in Michigan. Participating municipalities can contribute monies to the Trust as desired and no contribution method is imposed. These funds constitute a health care fund, which enable municipalities to accumulate monies to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS portfolio choices and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Expected Rates of Return

The long term expected rate of return (click for detailed explanation) on the OPEB plan investments was determined using a forward looking estimate of capital market returns model for each investment major asset class. Many local governments are invested in the Total Market Portfolio, which is summarized in the table below. Other municipalities have different investment choices depending on their individual preferences and expected need for resources to fund their OPEB obligations.

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Fund Name	Nominal Expected Return	Inflation	Expected Real Rate of Return
BALANCED INC PORTFOLIO	4.30%	2.50%	1.80%
CAPITAL APPR PORTFOLIO	5.40%	2.50%	2.90%
CAPTIAL PRES PORTFOLIO	3.50%	2.50%	1.00%
DIVERS BOND PORTFOLIO	3.00%	2.50%	0.50%
EMERGING MARKET STOCK	13.30%	2.50%	10.80%
EST MARKET PORTFOLIO	6.70%	2.50%	4.20%
GLOBAL STOCK PORTFOLIO	6.10%	2.50%	3.60%
INTERNATIONAL STOCK INDEX	7.80%	2.50%	5.30%
LARGE CAP STOCK INDEX	4.10%	2.50%	1.60%
MID CAP STOCK INDEX	4.00%	2.50%	1.50%
SHORT-TERM INCOME	1.00%	2.50%	-1.50%
SMALL CAP STOCK INDEX	4.40%	2.50%	1.90%
TOTAL MARKET PORTFOLIO*	7.35%	2.50%	4.85%

*The Total Market Portfolo has 3 main asset classes:

Asset Class	Target Allocation	Long Term Expected Rate of Return	Nominal Expected Return
Global Equity	60.0%	7.75%	4.65%
Global Fixed Income	20.0%	3.75%	0.75%
Private Investments	20.0%	9.75%	1.95%
			7.35%

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Required Supplementary Information (RSI)

GASB requires in the RSI section of your CAFR for all defined benefit OPEB plans a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return, net of investment expense, on OPEB plan investments for each year. This information is prospective, i.e. you don't need to go back 10 years, rather you will add the money weighted rates of return each year until you have a 10-year history.

Below is a chart showing the money weighted rates of return (net of investment expense) for various investment products that you may be invested in for OPEB and the rates of return through your fiscal year.

Fund Name	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20
BALANCED INCOME	3.98%	-3.26%	4.61%	8.22%	7.16%	14.52%	-5.96%	4.77%
CAPITAL APPRECIATION	9.50%	-8.77%	2.11%	2.26%	0.12%	17.25%	-16.57%	-0.29%
CAPITAL PRESERVATION	2.14%	-1.95%	4.43%	8.60%	8.91%	13.00%	-0.14%	5.36%
DIVERSIFIED BOND	-1.50%	-1.33%	4.17%	8.28%	10.00%	9.41%	3.39%	4.96%
EMERGING MARKET	n/a	n/a	n/a	n/a	n/a	23.94%	-32.21%	-3.41%
ESTABLISHED MARKET	6.96%	-4.98%	3.07%	4.59%	2.79%	18.79%	-9.13%	1.95%
GLOBAL STOCK	n/a	n/a	n/a	n/a	n/a	25.23%	-24.98%	-4.39%
INTERNAT'L STOCK IND	n/a	n/a	n/a	n/a	5.88%	23.59%	-35.57%	-11.96%
LG CAP STOCK INDEX	17.49%	-5.83%	10.49%	18.26%	11.28%	27.91%	-11.31%	6.63%
MID CAP STOCK INDEX	13.96%	-12.62%	4.52%	12.80%	6.81%	25.06%	-27.04%	-6.21%
SM CAP STOCK INDEX	17.57%	-42.44%	-11.77%	-8.40%	-7.73%	24.82%	-44.67%	-14.58%
SHORT-TERM INCOME	0.52%	1.77%	2.67%	3.77%	4.12%	3.36%	4.86%	4.18%
TOTAL MARKET	5.23%	-3.80%	1.15%	3.09%	2.67%	13.51%	-5.98%	2.32%

EXAMPLE –

REQUIRED SUPPLEMENTARY INFORMATION

The following schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years where information is available.

Annual Money Weighted Return

The annual money weighted rate of return on OPEB plan investments is calculated as the internal rate of return on OPEB plan investments, net of investment expenses. This expresses investment performance adjusted for the changing amounts actually invested throughout the year, measured on monthly inputs with expenses measured on an accrual basis.

Schedule of Investment Returns

	Jun 30, 2017	Jun 30, 2018	Sep 30, 2018
Annual money-weighted rate of return, net of investment expenses (Total Market Portfolio)	12.99%	7.68%	5.23%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years where information is available.

Notes Disclosure about the MERS Health Care Saving Program defined contribution OPEB plan for employers

Plan Description: The employer's defined contribution OPEB plan (Health Care Savings Program) provides certain health care benefits to plan members and legal dependents upon termination of employment. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee defined contribution OPEB plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at *www.mersofmich.com*.

Contribution Rates or Amounts: The employer contributes X percent or a flat dollar amount depending on the plan provisions; employees are required to contribute X percent or a flat dollar amount depending on the plan provisions. Contribution rates are determined by the employer and may be amended by the local governing body.

Benefit Terms: Employees are immediately vested in their contributions and earnings of those contributions, and become vested on employer contributions after completion of XX to YY months of creditable service with the employer depending on the plan provisions.

Contribution Amounts: For the year ended December 31, 201X, employee contributions were $X, XXX and employer contributions were $XX,XXX.

Forfeiture Amounts: Nonvested employer contributions are forfeited upon termination of employment. Such forfeitures are used to cover future employer contributions, be directed to the employer's Retiree Health Funding Vehicle, (if applicable) or be equally distributed among all remaining active participants in the plan. At the end of December 31, 201X forfeitures of $XXX (if any) reduced the employer's defined contribution OPEB expense.

Employer Liability: There was a liability (if any) at the December 31, 201X of $X,XXX for contributions that were paid in the subsequent year.