



GASB 74/75 INTERIM ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2018

KENT COUNTY LEVY COURT

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November 20, 2018

**Allan Kujala
Kent County Levy Court
555 Bay Road
Dover, DE 19901**

This report summarizes the interim GASB actuarial valuation for the Kent County Levy Court 2017/18 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 74 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions).

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate, other economic assumptions, and demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

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); and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.



Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.

A handwritten signature in black ink that reads "Randy Gomez".

Randy Gomez, FSA, MAAA
Consulting Actuary

A handwritten signature in black ink that reads "Suraj M. Datta".

Suraj M. Datta, ASA, MAAA
Valuation Actuary

Executive Summary

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2018 compared to the prior fiscal year as shown in the County's Notes to Financial Statement.

	As of June 30, 2017	As of June 30, 2018
Total OPEB Liability	\$ 22,343,038	\$ 30,356,932
Actuarial Value of Assets	\$ (15,749,065)	\$ (17,335,606)
Net OPEB Liability	\$ 6,593,973	\$ 13,021,326
Funded Ratio	70.5%	57.1%

	FY 2016/17	FY 2017/18
OPEB Expense	\$ 1,333,517	\$ 2,511,769
Annual Employer Contributions	\$ 785,111	\$ 1,366,633
Actuarially Determined Contribution	\$ 785,111	\$ 1,318,229

	As of June 30, 2017	As of June 30, 2018
Discount Rate	7.75%	7.50%
Expected Return on Assets	7.75%	7.50%

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Schedule of Changes in Net OPEB Liability and Related Ratios

OPEB Liability	FY 2017/18	FY 2016/17
Total OPEB Liability		
Total OPEB Liability - beginning of year	\$ 22,343,038	\$ 18,186,728
Service cost	692,587	677,093
Interest	1,752,033	1,425,396
Change of benefit terms	0	168,506
Changes in assumptions	877,054	2,579,359
Differences between expected and actual experience	5,566,019	58,998
Benefit payments	(873,799)	(753,042)
Net change in total OPEB liability	\$ 8,013,894	\$ 4,156,310
Total OPEB Liability - end of year	\$ 30,356,932	\$ 22,343,038
Plan Fiduciary Net Position		
Plan fiduciary net position - beginning of year	\$ 15,749,065	\$ 14,221,832
Contributions - employer	1,366,633	785,111
Contributions - active employees	0	0
Net investment income	1,099,278	1,500,706
Benefit payments	(873,799)	(753,042)
Trust administrative expenses	(5,571)	(5,542)
Net change in plan fiduciary net position	\$ 1,586,541	\$ 1,527,233
Plan fiduciary net position - end of year	\$ 17,335,606	\$ 15,749,065
Net OPEB Liability - end of year	\$ 13,021,326	\$ 6,593,973
Plan fiduciary net position as % of total OPEB liability	57.1%	70.5%
Covered employee payroll	\$ 15,106,839	\$ 14,595,980
Net OPEB liability as % of covered payroll	86.2%	45.2%

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Schedule of Employer Contributions

The Actuarially Determined Contributions (ADC) shown below are based on the Annual Required Contribution (ARC) calculated in prior GASB 45 actuarial valuations as shown in the County's financial statements.

	FY 2017/18	FY 2016/17	FY 2015/16	FY 2014/15	FY 2013/14
Actuarially Determined Contribution (ADC)	\$ 1,318,229	\$ 785,111	\$ 785,111	\$ 616,016	\$ 616,016
Contributions in relation to the ADC	1,366,633	785,111	785,111	616,016	616,016
Contribution deficiency/(excess)	\$ (48,404)	\$ 0	\$ 0	\$ 0	\$ 0
Covered employee payroll	\$ 15,106,839	\$ 14,595,980	\$ 13,470,257	\$ 13,470,257	\$ 13,186,023
Contribution as a % of covered payroll	9.1%	5.4%	5.8%	5.0%	4.7%

	FY 2012/13	FY 2011/12	FY 2010/11	FY 2009/10	FY 2008/09
Actuarially Determined Contribution (ADC)	\$ 661,025	\$ 661,025	\$ 630,976	\$ 630,976	\$ 475,000
Contributions in relation to the ADC	661,025	661,025	630,976	630,976	475,000
Contribution deficiency/(excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered employee payroll	\$ 13,186,023	\$ 12,081,049	\$ 12,081,049	N/A	N/A
Contribution as a % of covered payroll	5.0%	5.5%	5.2%	N/A	N/A

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

OPEB Expense

OPEB Expense	FY 2017/18	FY 2016/17
Discount Rate		
Beginning of year	7.75%	8.00%
End of year	7.50%	7.75%
Service cost	\$ 692,587	\$ 677,093
Interest	1,752,033	1,425,396
Change of benefit terms	0	168,506
Projected earnings on OPEB plan investments	(1,199,122)	(1,103,411)
Reduction for contributions from active employees	0	0
OPEB plan administrative expenses	5,571	5,542
Current period recognition of deferred outflows / (inflows) of resources		
Differences between expected and actual experience	\$ 804,085	\$ 5,363
Changes in assumptions	516,105	234,487
Net difference between projected and actual earnings on OPEB plan investments	(59,490)	(79,459)
Total current period recognition	\$ 1,260,700	\$ 160,391
Total OPEB expense	\$ 2,511,769	\$ 1,333,517

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Deferred Outflows / (Inflows) of Resources

Deferred Outflows / (Inflows) of Resources represents the following items that have not been recognized in the OPEB Expense:

1. Differences between expected and actual experience of the OPEB plan
2. Changes of assumptions
3. Differences between projected and actual earnings in OPEB plan investments (for funded plans only)

The initial amortization period for the first two items noted above is based on expected future service lives while the difference between the projected and actual earnings in OPEB plan investment is amortized over five years. All balances are amortized linearly on a principal only basis and new bases will be created annually for each of the item above.

Differences between expected and actual experience for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2018
June 30, 2017 *	\$ 58,998	7	\$ 8,939	\$ 44,696
June 30, 2018	\$ 5,566,019	7	\$ 795,146	\$ 4,770,873

Changes in assumptions for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2018
June 30, 2017 **	\$ 2,579,359	7	\$ 390,812	\$ 1,954,060
June 30, 2018	\$ 877,054	7	\$ 125,293	\$ 751,761

Net Difference between projected and actual earnings in OPEB plan investments for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2018
June 30, 2017	\$ (397,295)	5	\$ (79,459)	\$ (238,377)
June 30, 2018	\$ 99,844	5	\$ 19,969	\$ 79,875

* The amortization period for the differences between actual and expected experience created for the fiscal year ending June 30, 2017 has been updated from 11 years as shown in the FYE June 30, 2017 GASB 74/75 report to 7 years to take into account the average remaining service lives of inactive. The annual recognition for FY 2017/18 is based on the unamortized balance as of June 30, 2017 (\$53,635) divided by the remaining 6 years of amortization.

** The amortization period for changes in assumptions created for the fiscal year ending June 30, 2017 has been updated from 11 years as shown in the FYE June 30, 2017 GASB 74/75 report to 7 years to take into account the average remaining service lives of inactive. The annual recognition for FY 2017/18 is based on the unamortized balance as of June 30, 2017 (\$2,344,872) divided by the remaining 6 years of amortization.

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Deferred Outflows / (Inflows) of Resources (Continued)

As of fiscal year ending June 30, 2018	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 4,815,569	\$ 0
Changes in assumptions	2,705,821	0
Net difference between projected and actual earnings in OPEB plan investments	79,875	(238,377)
Total	\$ 7,601,265	\$ (238,377)

Annual Amortization of Deferred Outflows / (Inflows)

The balances of June 30, 2018 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

FYE	Balance
2019	\$ 1,260,700
2020	\$ 1,260,700
2021	\$ 1,260,700
2022	\$ 1,340,158
2023	\$ 1,320,191
Thereafter	\$ 920,439

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Sensitivity Results

The following presents the net OPEB liability as of June 30, 2018, calculated using the discount rate assumed and what it would be using a 1% higher and 1% lower discount rate.

- The current discount rate is 7.50%.
- The 1% decrease in discount rate would be 6.50%.
- The 1% increase in discount rate would be 8.50%.

As of June 30, 2018	Net OPEB Liability
1% Decrease	\$ 16,949,449
Current Discount Rate	\$ 13,021,326
1% Increase	\$ 9,748,319

The following presents the net OPEB liability as of June 30, 2018, using the health care trend rates assumed and what it would be using 1% higher and 1% lower health care trend rates.

- The current health care trend rate starts at an initial rate of 7.00%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 6.00%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 8.00%, decreasing to an ultimate rate of 5.50%.

As of June 30, 2018	Net OPEB Liability
1% Decrease	\$ 9,085,473
Current Trend Rates	\$ 13,021,326
1% Increase	\$ 17,833,283

Asset Information

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Reconciliation of Assets

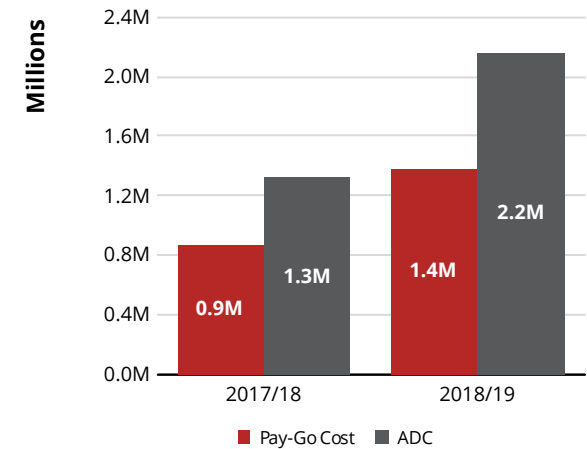
	FY 2016/17	FY 2017/18
Additions		
Contributions received		
Employer	\$ 785,111	\$ 1,366,633
Employee	0	0
Total contributions	\$ 785,111	\$ 1,366,633
Investment income		
Net increase in fair value of investments	\$ 1,151,320	\$ 713,325
Interests and dividends	349,386	385,953
Investment expense, other than from securities lending	0	0
Securities lending income	0	0
Securities lending expense	0	0
Net investment income	\$ 1,500,706	\$ 1,099,278
Total additions	\$ 2,285,817	\$ 2,465,911
Deductions		
Benefit payments	\$ (753,042)	\$ (873,799)
Administrative expenses	(5,542)	(5,571)
Other	0	0
Total deductions	\$ (758,584)	\$ (879,370)
Net increase in net position	\$ 1,527,233	\$ 1,586,541
Net position restricted to OPEB		
Beginning of year	\$ 14,221,832	\$ 15,749,065
End of year	\$ 15,749,065	\$ 17,335,606

Actuarially Determined Contributions

Kent County Levy Court Interim GASB 74/75 Valuation For Fiscal Year Ending June 30, 2018

	FY 2017/18		FY 2018/19	
Discount rate (Funding)		7.75%		7.50%
Payroll growth factor used for amortization		N/A		N/A
Actuarial cost method		Entry Age Normal Level % of Salary		Entry Age Normal Level % of Salary
Amortization type		Level Dollar		Level Dollar
Amortization period (years)		30		30
Actuarial Accrued Liability (AAL) - beginning of year	\$	22,343,038	\$	30,356,932
Actuarial Value of Assets (AVA) - beginning of year		(15,749,065)		(17,335,606)
Unfunded AAL - beginning of year	\$	6,593,973	\$	13,021,326
Normal Cost	\$	692,587	\$	978,528
Amortization of Unfunded AAL		530,827		1,025,611
Total normal cost plus amortization	\$	1,223,414	\$	2,004,139
Interest to end of year		94,815		150,310
Actuarially Determined Contribution - Preliminary	\$	1,318,229	\$	2,154,449
Expected Benefit Payments		873,799		1,381,162
Actuarially Determined Contribution - Final	\$	1,318,229	\$	2,154,449

Cash Vs Accrual Accounting



Actuarially Determined Contribution (ADC) is the target or recommended contribution to a defined benefit OPEB plan, which if paid on an ongoing basis, will provide sufficient resources to fund future costs for services to be earned and liabilities attributed to past services. This is typically higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

Discussion of Discount Rates

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Under GASB 74, the discount rate used in valuing OPEB liabilities for funded plans as of the Measurement Date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

For the current valuation:

1. The long-term expected rate of return on OPEB plan investment is 7.00%, which is based on an asset allocation of 58% in equity and 42% in fixed income.
2. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.
3. The final equivalent single discount rate used in this year's valuation is 7.50%, which is based on the expectation that the County will continue to fully fund the Actuarially Determined Contribution (ADC).

	Bond Buyer Go 20- Bond Municipal Bond Index	S&P Municipal Bond 20-Year High Grade Rate Index	Fidelity 20-Year Go Municipal Bond Index	Bond Index Range
Yield as of June 30, 2017	3.58%	3.13%	3.56%	3.13% - 3.58%
Yield as of June 30, 2018	3.87%	2.98%	3.62%	2.98% - 3.87%

Summary of Key Actuarial Assumptions

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

For a complete summary of actuarial methods and assumptions, refer to the GASB 74/75 actuarial valuation report for the fiscal year ending June 30, 2017.

Measurement Date	For fiscal year ending June 30, 2018, a June 30, 2018 measurement date was used.
Actuarial Valuation Date	July 1, 2016 with liabilities projected to the June 30, 2018 measurement date on a “no loss / no gain” basis.
Discount Rate	7.75% as of July 1, 2017 and 7.50% as of June 30, 2018 Refer to the Discussion of Discount Rates section for more information on selection of the discount rate.
Payroll Growth	3.5% per year
Inflation Rate	3.0% per year
Cost Method	Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where: <ul style="list-style-type: none">• service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant’s benefit at retirement; and• annual Service Cost is a constant percentage of the participant’s salary that is assumed to increase according to the Payroll Growth.

Health Care Trend Rates	FYE	Medical/Rx	Dental
	2019	7.00%	4.00%
	2020	6.50%	3.75%
	2021	6.00%	3.50%
	2022	5.50%	3.50%
	2023	5.00%	3.50%
	2024+	4.50%	3.50%

The HRA benefit is assumed to increase at 2% annually. Life insurance premium is assumed not to increase in the future.

Summary of Key Actuarial Assumptions

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Excise Tax

Effective on January 1, 2022, the County is liable for 40% of the difference between the plan costs and the cost threshold, when the plan costs are greater than the cost threshold. The 2022 annual cost thresholds for the excise tax are estimated to be the following:

- Pre-Medicare: \$12,850 for single and \$33,500 for family
- Medicare: \$11,050 for single and \$29,750 for family

The above thresholds are based on the 2018 amounts increased by 2% annually from 2018 to 2022. The excise tax thresholds are assumed to increase by 3.5% in 2022 and 2.5% for all years after 2022.

The plan costs used in the excise tax liability valuation are equal to the County's funding rates.

Actuary's Notes

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2018

Interim year valuation results have been projected from the prior year's valuation with adjustments for actual premium increases for the County's health plans from 2016/17 to 2018/19. Making this change resulted in an increase in liabilities.

The discount rate has been updated from 7.75% as of July 1, 2017 to 7.50% as of June 30, 2018, with the intention to continue to decrease the discount rate by 0.25% each year until reaching the long-term expected rate of return of the OPEB Trust of 7.00%. The change resulted in an increase in liabilities.

The implementation of the ACA Excise Tax has been delayed from 2020 to 2022. Additionally, the threshold amounts and trend rate for the Excise Tax have been updated as shown on page 14. This change has resulted in a decrease in liabilities.

Premium Rates

A comparison of the monthly funding and Highmark premium equivalent rates effective July 1, 2016, July 1, 2017 and July 1, 2018 are as shown below.

Funding Rates

Plans	Eff. 7/1/2016		Eff. 7/1/2017		Eff. 7/1/2018	
	EE	EE + Sp	EE	EE + Sp	EE	EE + Sp
EPO High Plan	\$ 915.13	\$ 2,104.80	\$ 1,007.00	\$ 2,284.85	\$ 1,067.43	\$ 2,455.08
EPO Low Plan	\$ 879.21	\$ 2,022.29	\$ 968.55	\$ 2,196.43	\$ 1,029.01	\$ 2,366.72
Medicfill Medicare Supplement Plan	\$ 466.04	\$ 932.08	\$ 550.47	\$ 1,100.94	\$ 684.78	\$ 1,369.56

Highmark Premium Equivalent Rates¹

Plans	Eff. 7/1/2016		Eff. 7/1/2017		Eff. 7/1/2018	
	EE	EE + Sp	EE	EE + Sp	EE	EE + Sp
EPO High Plan	\$ 780.83	\$ 1,795.91	\$ 812.56	\$ 1,868.87	\$ 933.13	\$ 2,146.19
EPO Low Plan	\$ 750.18	\$ 1,725.42	\$ 777.95	\$ 1,789.29	\$ 894.71	\$ 2,057.83

¹ Highmark premium equivalent rates do not include HRA expenses.