

Subsequent OPEB Valuation for the City of Sheboygan

Previous Study

Key Benefit Concepts completed an actuarial liability study for the City of Sheboygan in March 2021. The study had a valuation date of December 31, 2019. We provided an actuarial valuation of Other Post-Employment Benefits (OPEB) liability. On pages 7-11 is the summary of benefits for which we based the City's previous valuation. If the benefits remained the same, we anticipate our fees for an updated valuation to be \$8,500.

If the City wishes to have an updated study at this time, please sign and return the attached acceptance form and we will begin a subsequent liability study upon acceptance.

If further changes beyond those already noted on pages 7-11 have been made to your City's post employment benefits, and the City is interested in an updated study at this time, please sign the attached acceptance as well as send us the modified benefits. We will review the changes and reply with modifications to our fees, if needed, based upon the noted benefit changes.

New Study

Subsequent studies may be more complex than initial studies and require more work than merely updating terminated employees and new hires. The retirement, termination and addition of employees can change the demographics of a group (i.e. average age and years of service, average age of medical plan participant). These demographics are critical in the calculation of the liabilities, particularly in that of the implicit rate subsidy. In other words, when performing a subsequent study, regardless if it is the actuary that performed the prior valuation or some other actuary, calculation of the liabilities is performed as of the new valuation date, based upon the actives and retirees of the City as of this new valuation date and their associated demographics. So, in this regard, it is as if we are performing an initial study all over again.

Please note that KBC does not provide legal advice. The scope of the project is clearly defined in our proposal and does not include commentary or accountability for whether such benefits and eligibilities comply with state, federal or other required guidelines. The government entity is responsible for assuring that the benefits it provides are in compliance with all current regulations.

City Funding

Via emails from the City on August 3, 2022, the City is funding benefits as follows:

- OPEB: pay-as-you-go basis from general assets (i.e., the City is **not** funding its benefit via an irrevocable trust or account).
- Self-funded health benefit: The City provides health benefits on a self-funded basis.

With recent changes in GASB guidelines, it is important to note that this proposal for a new valuation is based upon this City Funding approach.

Proposed Valuation

This proposal is for a valuation of the OPEB (GASB 74/75) benefits based upon compliance with the new GASB Statements.

The proposal assumes the following:

- Valuation Date: 12/31/2021
- Measurement Date: 12/31/2022
- Reporting Date: 12/31/2022

Fees: The fee for services is expected to be no greater than the fee shown. These fees are based upon the City’s funding method noted above. Should the City be using a different funding method than as noted herein, the fees for services are not valid and a new proposal is required.

Under new GASB Statements, it is required for an actuary to update tables in the year between valuations. KBC will provide OPEB table updates for fiscal year end reporting 12/31/2023. Since this is billed separately in the subsequent year, the fee for the table updates are itemized separately. Our fee below is for the table updates, based upon following GASB Statements 75, and assuming that the City is agreeable to a measurement date that is the same as the reporting date for such updates. Our fee is based upon this assumption.

Subsequent Actuarial Valuation & Required Table Update Fee	
	Fee
OPEB Valuation	
• Discounted fee if paid by cash, check or ACH Transfer	\$ 8,500
• Paid by Debit/Credit Card (including processing fee) *	\$ 8,755
In Person Visit to City to Present Updated Report <i>(optional service)</i>	\$ 325
Virtual Meeting with City to Present Updated Report outside of regular business hours <i>(optional service)</i>	\$ 250
Required Table Update - for the 12/31/2023 financial reporting year end OPEB Table Updates GASB 75 - Roll Forward	
• Fee if paid by check or ACH Transfer	\$ 800
• Paid by Debit/Credit Card (including processing fee) *	\$ 824

Option: 4-year Agreement - (Fee for Valuation 12/31/2021, Table Updates 12/31/2022, Updated Valuation 12/31/2023, and Table Updates 12/31/2024)

Many entities request multi-year agreements; thus, we have provided this option for the City as well. Below are our fees for the 12/31/2021 (FYE 12/31/2022) valuation, 12/31/2022 (FYE 12/31/2023) table updates, the subsequent valuation as of 12/31/2023 (FYE 12/31/2024), and table updates as of 12/31/2024 (FYE 12/31/2025).

The fees for the valuations and the table updates assume there will be no changes or modifications to the eligibility or post employment benefits from the initial year valuation. The subsequent year following the valuation requires table updates. Each new valuation requires calculations of the inflows and outflows and preparation/update of the table of inflows and outflows. This multi-year agreement allows the City to budget for upcoming expected costs. Further, since the 4-year

agreement reduces KBC's administrative time/expense to prepare the proposal and request approval, the fees for the 4-year period reflects the reduced time/expense spread over the 4-year period.

Should the GASB guidelines, benefits, eligibility, or measurement date change, the fees below would be subject to change. With a material change, a current multi-year contract would be superseded by a new proposal/ agreement with revised fees; which the City would have the opportunity to accept for the remaining duration of the initial executed agreement **or** decline, thus terminating the contract for any remaining years. In addition, should it be determined there is no longer a post employment benefit requiring valuation for reporting purposes the contract would terminate for any remaining duration.

Actuarial Valuation & Required Table Update Fees	Credit Card*	Check or ACH
1. Subsequent OPEB Valuation GASB 75 as of 12/31/2021 for FYE 12/31/2022	\$ 8,498	\$ 8,250
2. Required OPEB Table Update GASB 75 for the fiscal year end 12/31/2023	\$ 824	\$ 800
3. Subsequent OPEB Valuation GASB 75 as of 12/31/2023 for FYE 12/31/2024	\$ 8,755	\$ 8,500
4. Required OPEB Table Updates GASB 75 for the fiscal year end 12/31/2025	\$ 850	\$ 825
Total 4-year Agreement Fees	\$ 18,926	\$ 18,375

*Paid by Debit/Credit Card (including processing fee). KBC offers the option of paying the fee by debit or credit card. The difference in the fee is the processing service cost. There is a discounted fee for payment by check, cash or ACH transfer as noted.

An in person visit to the City to present updated report (optional services) \$325/visit or \$250/visit for a virtual meeting with the City to present the updated report if outside of regular business hours.

Fees noted in this proposal are valid if accepted by September 15, 2022.

The fees for the table updates assume there will be no changes or modifications to the eligibility or post employment benefits from the 12/31/2021 valuation. Note, the fee for table update services will be invoiced in 2022/ 2023 after the service is provided.

Subsequent studies and alterations are not included in the above noted fee.

Because of the importance of oral and written representations to an effective agreement, The City hereby releases KBC and its current, former or future owners, agents, employees, personnel and assignees from any and all claims, liabilities, costs and expenses attributable to a misrepresentation by the City or its management. Further, the City understands and agrees to the valuation as prepared by KBC or assignee according to the following process and outcomes:

The calculations of cost and liabilities illustrated will be determined according to generally accepted actuarial principles and standards. Specific assumptions and actuarial methodology for the study will be defined within the report. Each material assumption will be, in the actuaries' opinion, individually reasonable and falls within the best estimate range, taking into

account past experience and reasonable future expectations, and is consistent with each other material assumption. Given that actual experience may vary from the actuarial assumptions projected, developing liabilities and costs may differ from those estimated in the report. Furthermore, in the event of any inaccuracies in the information or data provided, upon which these calculations were based, revisions may be needed. Fees associated with such revisions are not within the scope of this project. Additional fees will be determined and approved by the City before revisions are made.

The valuation will be prepared in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The actuaries certifying the valuation meet the qualifications of the American Academy of Actuaries required to provide the actuarial opinion detailed in this report.

The valuation and report will be prepared solely for the purposes of providing information required by The Government Accounting Standards Board (GASB) for the City's financial reporting. KBC assumes neither responsibility nor any liability for use of this report for any other purposes.

Therefore, if the above services and guidelines are met, neither KBC nor its current, former or future owners, agents, employees and personnel shall be liable to the City, whether a claim be in tort, contract or otherwise, for any amount in excess of the total professional fees paid by the City under this agreement.

City Multi-year Disclaimer: "Notwithstanding any provision in this Agreement to the contrary, in the event that no funds or insufficient funds are appropriated by Lessee's governing body for the next fiscal year for payments due under this Agreement, this Agreement shall terminate the end of such fiscal year on the last day of the fiscal year for which appropriations were received and no further services shall be provided under the Agreement. The City shall notify KBC of nonappropriation within thirty (30) days of its occurrence."

Timetable: Upon receipt of **all required data**, the valuation is scheduled to be completed within a 12-week timetable. However, please note that during periods of high volume, the timetable may be longer.

Review and Report: Our fees include a telephonic review of the draft report and preparation of an electronic version of the report and up to two hard copies of the final valuation report, if requested.

City Visit: Many government entities do not require a presentation with the subsequent study. Thus, the subsequent valuation does not include a visit to the City to present the finalized report. However, this service is available at an additional cost. Please contact us if you should like a presentation.

Invoicing: Statements for work completed will be invoiced when a draft valuation is provided to the City. Payment is due upon receipt. Subsequent invoices will be sent if additional services are requested.

Proposal Acceptance

If the City wishes to have an updated study at this time:

- Please sign and return the attached acceptance form and we will begin a subsequent liability study upon acceptance.

If further changes have been made to your City's post employment benefits, and the City is interested in an updated study at this time:

- Please sign the attached acceptance as noted and make the changes on the benefit summaries.
- We will review the changes and reply with modifications to our fees, if needed, based upon the noted benefit changes.

Acceptance for a Subsequent Actuarial Liability Study

This proposal forms an agreement between the City of Sheboygan and Key Benefit Concepts, LLC.

Actuarial Valuation including OPEB & Required Table Updates:

Please check the appropriate boxes:

The City's medical plan is: <input type="checkbox"/> Fully Insured <input type="checkbox"/> Self-funded	The City's benefits are funded through: OPEB <input type="checkbox"/> General Assets <input type="checkbox"/> Irrevocable Trust
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If response does not agree with notes on page 1 & 2, fee will change.

Please check one box below:

- The City accepts the proposal for a 2-year agreement (**Valuation 12/31/2021, Table Updates 12/31/2022**)
- The City accepts the proposal for the 4-year agreement (**Valuation 12/31/2021, Table Updates 12/31/2022, Updated Valuation 12/31/2023, and Table Updates 12/31/2024**). This agreement allows for early termination only if the City no longer has an OPEB liability.

Please check one box below:

- The Post Employment Benefit Summaries as provided in this proposal, accurately and completely reflect the current retirement benefits offered by the City.
- Modifications were made to the City's post-employment benefits beyond those already noted in the Post-Employment Benefit Summary. These additional modifications have been noted as illustrated on pages 7-11. The Post-Employment Benefit Summary with the noted changes accurately and completely reflects the retirement benefits currently offered by the City.

Disclaimer

- Upon receipt of the eligibility and post employment benefit data required for valuation, should we find that eligibility and/or benefits are significantly different than outlined in this proposal or changes in GASB requirements have occurred, KBC reserves the right to revise our proposal and the associated fees for the study.
- **To avoid additional charges, please make sure the benefit summaries provided are correct.** Upon review of the draft report should further modifications be required beyond those noted in the summary with the acceptance, wherein the calculated liabilities are affected, additional fees will be charged. These fees will be based upon the additional time required to recalculate the liabilities. With the inclusion of the additional fee, the total due may exceed the fee noted in this proposal.

City of Sheboygan

Kaitlyn Krueger, Finance Director/ Treasurer

Date

Facsimiles of acceptance signatures shall be as valid as the original signatures.

City of Sheboygan

Post-Employment Benefit Summary

Police Officers

Eligibility	OPEB
Eligible for retirement under WRS	<p><u>Health Insurance Escrow Account:</u> Upon retirement, the City shall establish a Health Insurance Escrow Account to be used for full payment (100%) of lowest priced single medical plan until age 65, Medicare or any government-sponsored insurance, death or its exhaustion, whichever should occur first. The monies to be placed into the retiree's account will be determined as follows:</p> <ul style="list-style-type: none"> ▪ <u>Sick Leave Conversion Credit (Implicit Rate Subsidy Only):</u> Full conversion of credit of accumulated unused sick leave not in excess of seventy-five (75) days at regular rate of pay exclusive of holiday pay at the time of retirement. ▪ <u>Good Attendance/Retirement Bonus Program (Implicit Rate Subsidy Only):</u> For each sick leave day accumulated after January 1, 1985 and in excess of 149 days, the retiree shall receive 1 retirement credit. These credits will be converted into a cash value at the rate of 12% of the single plan rate in effect upon retirement, not to exceed \$65 per credit. ▪ <u>Retiree Insurance Credit:</u> Eligible retirees will receive \$55.29 per month times the number of months from the month after retirement until age 65.

Local 483 Fire Union & Paramedics

Eligibility	OPEB
Eligible for retirement under WRS	<p><u>Health Insurance Escrow Account:</u> Upon retirement, the City shall establish a Health Insurance Escrow Account to be used for full payment (100%) of lowest priced single medical plan until age 65, Medicare or any government-sponsored insurance, death or its exhaustion, whichever should occur first. The monies to be placed into the retiree's account will be determined as follows:</p> <ul style="list-style-type: none"> ▪ <u>Sick Leave Conversion Credit (Implicit Rate Subsidy Only):</u> Full conversion of credit of accumulated unused sick leave not in excess of seventy-two (72) days at regular rate of pay. ▪ <u>Good Attendance/Retirement Bonus Program (Implicit Rate Subsidy Only):</u> For each sick leave day accumulated after January 1, 1987 and in excess of 144 days, the retiree shall receive 1 retirement credit. These credits will be converted into a cash value at the rate of 12% of the single plan rate in effect upon retirement, not to exceed \$65 per credit, increasing to \$90/credit effective 1/1/2021. ▪ <u>Retiree Insurance Credit:</u> Eligible retirees will receive \$60.16 per month, times the number of months from the month after retirement until age 65.

Local 483 Fire Union & Paramedics (continued)

Eligibility	OPEB
<p>Upon retirement, lay off without cause or death with 5 years or more of continuous service</p>	<p>A full-time employee in the bargaining unit is entitled to payment of one-half (½) of all accumulated sick leave up to a maximum of seventy-two (72) days' pay, less any amount paid out as a result of any previous termination.</p> <p>The employee, upon request shall be allowed to deposit the after-tax value for the purposes of payment of health insurance premiums (Implicit Rate Subsidy Only), not to exceed the cost of insurance premiums for one year and including any increase in insurance premiums as applicable. A day's pay does not include holiday pay if previously paid, and the rate of pay shall be the rate in effect at the time of retirement.</p>

Police Supervisors

Eligibility	OPEB
<p>Eligible for retirement under WRS</p>	<p><u>Health Insurance Escrow Account:</u> Upon retirement, the City shall establish a Health Insurance Escrow Account to be used for full payment (100%) of lowest priced single medical plan until age 65, Medicare or any government-sponsored insurance, death or its exhaustion, whichever should occur first. The monies to be placed into the retiree's account will be determined as follows:</p> <ul style="list-style-type: none"> ▪ <u>Sick Leave Conversion Credit (Implicit Rate Subsidy Only):</u> Full conversion of credit of accumulated unused sick leave not in excess of eighty (80) days at regular rate of pay exclusive of holiday pay at the time of retirement. ▪ <u>Good Attendance/Retirement Bonus Program (Implicit Rate Subsidy Only):</u> For each sick leave day accumulated after January 1, 1985 and in excess of 144 days, the retiree shall receive 1 retirement credit. These credits will be converted into a cash value at the rate of 12% of the single plan rate in effect upon retirement. ▪ <u>Retiree Insurance Credit:</u> Eligible retirees will receive \$58.03 per month, times the number of months from the month after retirement until age 65.

Non-Represented

TIER I: As of December 31, 2011; Eligible for Retirement Under WRS with at Least 15 Years of Service of which a Minimum of 5 were Served as a Non-Represented	
Eligibility	OPEB
Eligible for retirement under WRS with a minimum of 15 years of service of which at least the last 5 are served as a Non-Represented employee	<u>Medical Premium Contributions:</u> Upon retirement, the City will contribute either the full (100%) single medical premium or 60% of the family medical premium on behalf of the retiree for a maximum period of 10 years (5 years if non-exempt) but not to exceed Medicare-eligibility, age 65 or death.
TIER II: Those <i>NOT</i> Meeting <i>ALL</i> the Retirement Requirements as of December 31, 2011	
Eligibility	OPEB
Eligible for retirement under WRS with a minimum of 15 years of service of which at least the last 5 are served as a Non-Represented employee	<u>Medical Premium Contributions:</u> Upon retirement, the City will contribute 50% of the single or family medical premium on behalf of the retiree for a maximum period of 5 years (2.5 years if non-exempt) but not to exceed Medicare-eligibility, age 65 or death.
TIERS I & II	
Eligibility	OPEB
Eligible for retirement under WRS early retirement	<u>Sick Pay Bank: (<i>Implicit Rate Subsidy Only</i>)</u> Unused sick leave accumulated up to the first 1152 hours will be valued at the hourly rate in effect on December 31, 2011. All hours exceeding 1152 will be converted into credits by dividing them by 8; each credit is valued at \$60. The resulting funds may be used to pay for health insurance premiums until age 65, Medicare, or any government-sponsored insurance or death or its exhaustion, whichever occurs first.
	Non-OPEB (Compensated Absence)
	<u>Sick Leave Payout:</u> Retirees not participating in the medical plan may instead choose a cash payout of 50% of their unused sick hours accumulated upon retirement up to a maximum of 576 hours.
Note: Upon a promotion from Local 483 into a Fire Command Staff position (with the exception of the Fire Chief) and upon receiving a WRS qualified retirement for protected, sworn employee who actually retires; a Fire Command Staff (with the exception of the Fire Chief) may retain the retirement severance benefits at the time of promotion <i>or</i> follow applicable Non-Represented retirement benefits (Tier II or III, depending on start date of promotion). This election is to be made at time of retirement notification.	

Mead Public Library

Eligibility	OPEB
Eligible for retirement under WRS	<p>All eligible library employees received an HSA contribution equivalent to their total sick bank hours remaining at the end of 2018, or received a cash payout of their total remaining sick bank hours. These payouts were made on the 12/28/2018 and 1/11/2019 payrolls.</p> <p><u>COBRA: (Implicit Rate Subsidy Only)</u> Retiring employees are only eligible for COBRA benefits.</p>

ASCME 1564 (City Hall Employees), DPW AFSCME 2039 (Labor Trade) & Professional 5011 Union

Eligibility	OPEB
Eligible for retirement under WRS early retirement	<p><u>Sick Pay Bank: (Implicit Rate Subsidy Only)</u> Unused sick leave accumulated as of December 31, 2011; up to the maximum amounts of 672 hours for Locals 1564 & 2039 and 640 hours for Local 5011, will be valued at the hourly rate in effect on December 31, 2011. The resulting funds may be used to pay the full (100%) single medical premium rate until age 65, Medicare or any government-sponsored insurance, 18 months from the date of retirement, death or exhaustion of funds, whichever occurs first.</p>
	<p>Non-OPEB (Compensated Absence)</p> <p><u>Sick Leave Payout:</u> Retirees not participating in the medical plan may instead choose a cash payout of 50% of their unused sick hours accumulated as of December 31, 2011; up to the maximum amounts of 672 hours for Locals 1564 & 2039 and 640 hours for Local 5011, converted the hourly rate in effect on December 31, 2011.</p>

Local 998 Transit

Eligibility	OPEB
Eligible for retirement under WRS	<p><u>Medical & Dental Insurance:</u> Upon retirement, the City will contribute the same amount of premiums as is provided to active employees (currently 80%) at the single or family medical premium rate on behalf of the retiree until Medicare eligibility.</p> <p>Employees hired on or after January 1, 2013, upon retirement or termination of employment, will only be eligible for 18 months of COBRA coverage.</p> <p>Notes:</p> <ul style="list-style-type: none"> • <i>A surviving spouse is eligible to remain on the City's medical plan.</i> • <i>Upon eligibility for Medicare, Medicare benefits will be integrated. The retiree premium rate will be reduced to reflect this integrated program.</i> • <i>Retirees have a one-time option of switching between single or family coverage if personal circumstances change and if allowed by carrier.</i>

Notes:

- *Upon retirement or exhaustion of retiree's fund balances for use towards continued coverage or any city-provided contributions, retirees may self-pay to continue coverage on the City's group medical plan (unless specifically noted otherwise above).*
- *The sick leave benefit is not an OPEB benefit, but a compensated absence under GASB 16. However, the resulting implicit rate subsidy, when applicable, from use of such funds to remain on the City's medical plan should be accounted for as an OPEB.*
- *The City has a high deductible health plan (\$1,500 single/ \$3,000 family). For 2021 the City will provide **only active employees** enrolled in the health insurance plan with HSA contributions of \$750 single/ \$1,500 family/ limited family.*
- *Effective January 1, 2016, active Transit employees on the City's high deductible health plan will receive HSA contributions of \$600 single/ \$1,200 family each year of the agreement and agree to no deductible increases in each year of the contract. There are no HSA contributions provided in retirement (retirees have received HSA contributions in 2019; no further HSA contributions have been provided. 2019 was the only year this occurred).*