



GASB 74/75 INTERIM ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2020

KENT COUNTY LEVY COURT

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January 6, 2021

**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 2019/20 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, appearing to read "S M Datta".

Suraj M. Datta, ASA, MAAA
Consulting Actuary

A handwritten signature in black ink, appearing to read "Cody Kocher".

Cody Kocher, ASA
Valuation Actuary

Executive Summary

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2020 compared to the prior fiscal year as shown in the County's Notes to Financial Statement.

	As of June 30, 2019	As of June 30, 2020
Total OPEB Liability	\$ 36,524,151	\$ 36,456,387
Actuarial Value of Assets	\$ (18,344,869)	\$ (20,220,996)
Net OPEB Liability	\$ 18,179,282	\$ 16,235,391
Funded Ratio	50.2%	55.5%

	FY 2018/19	FY 2019/20
OPEB Expense	\$ 4,333,134	\$ 4,005,894
Annual Employer Contributions	\$ 1,366,633	\$ 2,154,449
Actuarially Determined Contribution	\$ 1,318,229	\$ 2,154,449

	As of June 30, 2019	As of June 30, 2020
Discount Rate	7.50%	7.25%
Expected Return on Assets	7.50%	7.25%

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Schedule of Changes in Net OPEB Liability and Related Ratios

OPEB Liability	FY 2019/20	FY 2018/19	FY 2017/18	FY 2016/17
Total OPEB Liability				
Total OPEB Liability - beginning of year	\$ 36,524,151	\$ 30,356,932	\$ 22,343,038	\$ 18,186,728
Service cost	1,099,110	978,528	692,587	677,093
Interest	2,770,645	2,306,663	1,752,033	1,425,396
Change of benefit terms	0	474,250	0	168,506
Changes in assumptions	1,007,110	2,952,416	877,054	2,579,359
Differences between expected and actual experience	(3,556,895)	636,633	5,566,019	58,998
Benefit payments	(1,387,734)	(1,181,271)	(873,799)	(753,042)
Net change in total OPEB liability	\$ (67,764)	\$ 6,167,219	\$ 8,013,894	\$ 4,156,310
Total OPEB Liability - end of year	\$ 36,456,387	\$ 36,524,151	\$ 30,356,932	\$ 22,343,038
Plan Fiduciary Net Position				
Plan fiduciary net position - beginning of year	\$ 18,344,869	\$ 17,335,606	\$ 15,749,065	\$ 14,221,832
Contributions - employer	2,154,449	1,366,633	1,366,633	785,111
Contributions - active employees	0	0	0	0
Net investment income	1,156,291	836,738	1,099,278	1,500,706
Benefit payments	(1,387,734)	(1,181,271)	(873,799)	(753,042)
Trust administrative expenses	(46,879)	(12,837)	(5,571)	(5,542)
Net change in plan fiduciary net position	\$ 1,876,127	\$ 1,009,263	\$ 1,586,541	\$ 1,527,233
Plan fiduciary net position - end of year	\$ 20,220,996	\$ 18,344,869	\$ 17,335,606	\$ 15,749,065
Net OPEB Liability - end of year	\$ 16,235,391	\$ 18,179,282	\$ 13,021,326	\$ 6,593,973
Plan fiduciary net position as % of total OPEB liability	55.5%	50.2%	57.1%	70.5%
Covered employee payroll	\$ 15,627,852	\$ 15,374,840	\$ 15,106,839	\$ 14,595,980
Net OPEB liability as % of covered payroll	103.9%	118.2%	86.2%	45.2%

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

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 2019/20	FY 2018/19	FY 2017/18	FY 2016/17	FY 2015/16
Actuarially Determined Contribution (ADC)	\$ 2,154,449	\$ 1,318,229	\$ 1,318,229	\$ 785,111	\$ 785,111
Contributions in relation to the ADC	2,154,449	1,366,633	1,366,633	785,111	785,111
Contribution deficiency/(excess)	\$ 0	\$ (48,404)	\$ (48,404)	\$ 0	\$ 0
Covered employee payroll	\$ 15,627,852	\$ 15,374,840	\$ 15,106,839	\$ 14,595,980	\$ 13,470,257
Contribution as a % of covered payroll	13.8%	8.9%	9.0%	5.4%	5.8%
	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12	FY 2010/11
Actuarially Determined Contribution (ADC)	\$ 616,016	\$ 616,016	\$ 661,025	\$ 661,025	\$ 630,976
Contributions in relation to the ADC	616,016	616,016	661,025	661,025	630,976
Contribution deficiency/(excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered employee payroll	\$ 13,470,257	\$ 13,186,023	\$ 13,186,023	\$ 12,081,049	\$ 12,081,049
Contribution as a % of covered payroll	4.6%	4.7%	5.0%	5.5%	5.2%

*Due to the timing of the County's budgeting and reporting process, the Actuarially Determined Contribution amount for FY 2018/19 was set equal to the contribution amount from FY 2017/18.

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

OPEB Expense

OPEB Expense	FY 2019/20	FY 2018/19
Discount Rate		
Beginning of year	7.50%	7.50%
End of year	7.25%	7.50%
Service cost	\$ 1,099,110	\$ 978,528
Interest	2,770,645	2,306,663
Change of benefit terms	0	474,250
Projected earnings on OPEB plan investments	(1,402,371)	(1,306,523)
Reduction for contributions from active employees	0	0
OPEB plan administrative expenses	46,879	12,837
Current period recognition of deferred outflows / (inflows) of resources		
Differences between expected and actual experience	\$ 302,217	\$ 895,033
Changes in assumptions	1,105,731	937,879
Net difference between projected and actual earnings on OPEB plan investments	83,683	34,467
Total current period recognition	\$ 1,491,631	\$ 1,867,379
Total OPEB expense	\$ 4,005,894	\$ 4,333,134

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

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 items above.

Differences between expected and actual experience for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2020
June 30, 2017	\$ 58,998	7	\$ 8,939	\$ 26,818
June 30, 2018	\$ 5,566,019	7	\$ 795,146	\$ 3,180,581
June 30, 2019	\$ 636,633	7	\$ 90,948	\$ 454,737
June 30, 2020	\$ (3,556,895)	6	\$ (592,816)	\$ (2,964,079)

Changes in assumptions for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2020
June 30, 2017	\$ 2,579,359	7	\$ 390,812	\$ 1,172,436
June 30, 2018	\$ 877,054	7	\$ 125,293	\$ 501,175
June 30, 2019	\$ 2,952,416	7	\$ 421,774	\$ 2,108,868
June 30, 2020	\$ 1,007,110	6	\$ 167,852	\$ 839,258

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Deferred Outflows / (Inflows) of Resources (Continued)

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, 2020
June 30, 2017	\$ (397,295)	5	\$ (79,459)	\$ (79,459)
June 30, 2018	\$ 99,844	5	\$ 19,969	\$ 39,937
June 30, 2019	\$ 469,785	5	\$ 93,957	\$ 281,871
June 30, 2020	\$ 246,080	5	\$ 49,216	\$ 196,864

As of fiscal year ending June 30, 2020	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 3,662,136	\$ (2,964,079)
Changes in assumptions	4,621,737	0
Net difference between projected and actual earnings in OPEB plan investments	518,672	(79,459)
Total	\$ 8,802,545	\$ (3,043,538)

Annual Amortization of Deferred Outflows / (Inflows)

The balances as of June 30, 2020 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

FYE	Balance
2021	\$ 1,491,631
2022	\$ 1,571,089
2023	\$ 1,551,122
2024	\$ 1,057,413
2025	\$ 87,752
Thereafter	\$ 0

GASB Disclosures

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Sensitivity Results

The following presents the Net OPEB Liability as of June 30, 2020, 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 7.25%.
- The 1% decrease in discount rate would be 6.25%.
- The 1% increase in discount rate would be 8.25%.

As of June 30, 2020	Net OPEB Liability
1% Decrease	\$ 20,746,272
Current Discount Rate	\$ 16,235,391
1% Increase	\$ 12,457,001

The following presents the Net OPEB Liability as of June 30, 2020, 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 7.50%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 6.50%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 8.50%, decreasing to an ultimate rate of 5.50%.

As of June 30, 2020	Net OPEB Liability
1% Decrease	\$ 11,900,478
Current Trend Rates	\$ 16,235,391
1% Increase	\$ 21,483,658

Asset Information

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Reconciliation of Assets

	FY 2018/19	FY 2019/20
Additions		
Contributions received		
Employer	\$ 1,366,633	\$ 2,154,449
Employee	0	0
Total contributions	\$ 1,366,633	\$ 2,154,449
Investment income		
Net increase in fair value of investments	\$ 541,638	\$ 929,470
Interests and dividends	294,149	225,549
Investment expense, other than from securities lending	0	0
Securities lending income	1,119	1,496
Securities lending expense	(168)	(224)
Net investment income	\$ 836,738	\$ 1,156,291
Total additions	\$ 2,203,371	\$ 3,310,740
Deductions		
Benefit payments	\$ (1,181,271)	\$ (1,387,734)
Administrative expenses	(12,837)	(46,879)
Other	0	0
Total deductions	\$ (1,194,108)	\$ (1,434,613)
Net increase in net position	\$ 1,009,263	\$ 1,876,127
Net position restricted to OPEB		
Beginning of year	\$ 17,335,606	\$ 18,344,869
End of year	\$ 18,344,869	\$ 20,220,996

Actuarially Determined Contributions

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Due to the timing of the County's budgeting and reporting process, the Actuarially Determined Contribution for each year is calculated with a one-year lag.

	FY 2019/20	FY 2020/21	FY 2021/22
Discount rate	7.50%	7.50%	7.25%
Payroll growth factor used for amortization	N/A	N/A	N/A
Actuarial cost method	Entry Age Normal Level % of Salary	Entry Age Normal Level % of Salary	Entry Age Normal Level % of Salary
Amortization type	Level Dollar	Level Dollar	Level Dollar
Amortization period	30 years	29 years	28 years
Actuarial accrued liability (AAL) ¹	\$ 30,356,932	\$ 36,524,151	\$ 36,456,387
Actuarial value of assets ¹	(17,335,606)	(18,344,869)	(20,220,996)
Unfunded AAL – beginning of year	\$ 13,021,326	\$ 18,179,282	\$ 16,235,391
Normal Cost	\$ 978,528	\$ 1,099,110	\$ 1,067,424
Amortization of UAAL	1,025,611	1,445,855	1,277,479
Total normal cost plus amortization	\$ 2,004,139	\$ 2,544,965	\$ 2,344,903
Interest to the end of year	150,310	190,872	170,005
Actuarially Determined Contribution – Preliminary	\$ 2,154,449	\$ 2,735,837	\$ 2,514,908
Expected benefit payments	1,181,271	1,387,734	1,786,500
Actuarially Determined Contribution – Final²	\$ 2,154,449	\$ 2,735,837	\$ 2,514,908

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.

¹ As of July 1, 2018, 2019, and 2020 for fiscal years 2019/20, 2020/21, and 2021/22, respectively.

² Set to be the greater of the preliminary ADC and expected benefit payments.

Discussion of Discount Rates

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

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 7.25%, which is based on the expectation that the County will continue to fully fund the Actuarially Determined Contribution (ADC). The discount rate will be 7.25% for the FYE 2021 valuation, and then will be reduced to 7.00% for FYE 2022 and subsequent valuations.

	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 July 1, 2019	3.51%	2.79%	3.13%	2.79% - 3.51%
Yield as of June 30, 2020	2.21%	2.66%	2.45%	2.21% - 2.66%

Summary of Key Actuarial Assumptions

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

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, 2019.

Measurement Date

For fiscal year ending June 30, 2020, a June 30, 2020 measurement date was used.

Actuarial Valuation Date

July 1, 2019 with liabilities projected to the June 30, 2020 measurement date on a “no loss / no gain” basis. Liabilities as of July 1, 2019 are based on an actuarial valuation date of July 1, 2019 with no adjustments.

Discount Rate

7.50% as of July 1, 2019 and 7.25% as of June 30, 2020

The discount rate will be 7.25% for the FYE 2021 valuation, and will be reduced to 7.00% for FYE 2022 and subsequent valuations.

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:

- 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
2021	7.50%	4.25%
2022	7.00%	4.00%
2023	6.50%	3.75%
2024	6.00%	3.50%
2025	5.50%	3.50%
2026	5.00%	3.50%
2027+	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.

Actuary's Notes

Kent County Levy Court Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

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 2019/20 to 2020/21. Making this change resulted in a decrease in liabilities.

The discount rate has been updated from 7.50% as of July 1, 2019 to 7.25% as of June 30, 2020. The change resulted in an increase in liabilities.

On December 20, 2019, the Further Consolidated Appropriations Act of 2020 was passed in the US Senate. This bill included a repeal of the excise tax on high cost employer sponsored health coverage (also known as the Cadillac tax). For this reason, the impact of the tax on GASB 74/75 OPEB liabilities has been removed. This change resulted in a decrease in liabilities.

Premium Rates

A comparison of the monthly funding and Delaware Valley Health Trust premium equivalent rates effective July 1, 2019 and July 1, 2020 are as shown below.

Funding Rates

Plans	Eff. 7/1/2019		Eff. 7/1/2020	
	EE	EE + Sp	EE	EE + Sp
EPO High Plan	\$ 1,142.55	\$ 2,627.85	\$ 1,214.83	\$ 2,794.12
EPO Low Plan	\$ 1,101.04	\$ 2,532.36	\$ 1,149.80	\$ 2,644.58
Medicfill Medicare Supplement Plan	\$ 725.24	\$ 1,454.39	\$ 768.50	\$ 1,542.10

Delaware Valley Health Trust Premium Equivalent Rates¹

Plans	Eff. 7/1/2019		Eff. 7/1/2020	
	EE	EE + Sp	EE	EE + Sp
EPO High Plan	\$ 1,008.25	\$ 2,318.96	\$ 1,067.10	\$ 2,454.31
EPO Low Plan	\$ 966.73	\$ 2,223.48	\$ 1,002.07	\$ 2,304.44

¹ Delaware Valley Health Trust premium equivalent rates do not include HRA expenses.