CITY OF ROCHESTER HILLS, MICHIGAN
POSTRETIREMENT HEALTH PLAN

FUNDING EXHIBITS
AS OF JANUARY 1, 2025

FOR THE DECEMBER 31, 2024
FISCAL YEAR END

668 N. River Road
Naperville, IL 60563
Phone: 630.393.1483
Fax: 630.393.2516
lauterbachamen.com

Actuarial Valuation – Funding Exhibits

Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ROCHESTER HILLS, MICHIGAN
POSTRETIREMENT HEALTH PLAN

Fiscal Year Ending: December 31, 2024
Contribution Year Ending: December 31, 2025
Actuarial Valuation Date: January 1, 2025
Utilizing Data as of December 31, 2024

Submitted by:

Lauterbach & Amen, LLP
668 N. River Road
Naperville, IL 60563
Phone: 630.393.1483
www.lauterbachamen.com

Contact:

Todd A. Schroeder
Partner
February 27, 2025

LAUTERBACH & AMEN, LLP

CONTRIBUTION RECOMMENDATION

	Prior Valuation	Current Valuation
Normal Cost	$7,429	$4,133
Market Value of Assets	$2,117,953	$2,151,651
Actuarial Value of Assets	$2,265,593	$2,184,493
Total OPEB Liability	$1,984,003	$1,880,626
Unfunded OPEB Liability	($281,590)	($303,867)
Percent Funded		
Actuarial Value of Assets	114.19%	116.16%
Market Value of Assets	106.75%	114.41%
Recommended Contribution	$0	$0

The Recommended Contribution has remained $0 as the Prior Valuation.

MANAGEMENT SUMMARY – COMMENTS

The description of plan benefits, the assumption details (unless otherwise noted) and plan information can be found in the GASB 74/75 Actuarial Valuation Report for the City of Rochester Hills fiscal year ending December 31, 2024 dated February 25, 2025.

The funding results shown here are intended to be a supplement to that report and should be reviewed in tandem with all the disclosures in the main GASB 74/75 Actuarial Valuation Report.

There is no contribution required under the Funding Policy for the OPEB trust. The plan is currently overfunded, and the credit for overfunding exceeds the Normal Cost.

MARKET VALUE OF ASSETS

Statement of Assets

	Prior Valuation	Current Valuation
Cash and Cash Equivalents	$ 50,884	$ 72,652
Mutual Funds	2,067,056	2,078,992
Receivables (Net of Payables)	13	7
Total Market Value of Assets	$ 2,117,953	$ 2,151,651

The Total Market Value of Assets has Increased by Approximately $33,700 from the Prior Valuation.

Statement of Changes in Assets

Total Market Value of Assets - Prior Valuation	$ 2,117,953
Plus - Employer Contributions	47,520
Plus - Member Contributions	-
Plus - Return on Investments	194,088
Less - Benefit Payments	(194,365)
Less - Other Expenses	(13,400)
Prior Period Audit Adjustment	(145)
Total Market Value of Assets - Current Valuation	$ 2,151,651

The Rate of Return on Investments on a Market Value of Assets Basis for the Fund was Approximately 8.84% Net of Administrative Expense.

The Rate of Return on Investments shown above has been determined as the Return on Investments from the Statement of Changes in Assets, as a percent of the average of the prior and current Market Value of Assets.

MARKET VALUE OF ASSETS (GAIN)/LOSS

Current Year (Gain)/Loss on Market Value of Assets

Total Market Value of Assets - Prior Valuation	$ 2,117,953
Employer and Member Contributions	47,520
Benefit Payments	(194,365)
Expected Return on Investments	102,227
Expected Total Market Value of Assets - Current Valuation	2,073,335
Actual Total Market Value of Assets - Current Valuation	2,151,651
Current Market Value of Assets (Gain)/Loss	$ (78,316)

Expected Return on Investments	$ 102,227
Actual Return on Investments (Net of Expenses)	180,543
Current Market Value of Assets (Gain)/Loss	$ (78,316)

The Actual Return on Investments on a Market Value of Assets Basis was Greater than Expected for the Current Year.

The (Gain)/Loss on the current Market Value of Assets has been determined based on the Expected Rate of Return on Investments of 5.00%.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

Total Market Value of Assets - Current Valuation		$ 2,151,651
Adjustment for Prior (Gains)/Losses		
	Full Amount	
FYE 2024	$ (78,316)	(62,653)
FYE 2023	(155,408)	(93,245)
FYE 2022	505,073	202,029
FYE 2021	(66,447)	(13,289)
Total Deferred (Gain)/Loss		32,842
Initial Actuarial Value of Assets - Current Valuation		$ 2,184,493
Less Contributions for the Current Year and Interest		-
Less Adjustment for the Corridor		-
Total Actuarial Value of Assets - Current Valuation		$ 2,184,493

The Actuarial Value of Assets is Equal to the Market Value of Assets with Unanticipated (Gains)/Losses Recognized Over 5 Years. The Actuarial Value of Assets is 101.53% of the Market Value of Assets.

ACTUARIAL VALUE OF ASSETS (GAIN)/LOSS

Total Actuarial Value of Assets - Prior Valuation	$ 2,265,593
Plus - Employer Contributions	47,520
Plus - Member Contributions	-
Plus - Return on Investments	79,290
Less - Benefit Payments	(194,365)
Less - Other Expenses	(13,400)
Prior Period Audit Adjustment	(145)
Total Actuarial Value of Assets - Current Valuation	$ 2,184,493

The Rate of Return on Investments on an Actuarial Value of Assets Basis for the Fund was Approximately 3.01% Net of Administrative Expense.

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.

ACTUARIAL METHODS – RECOMMENDED CONTRIBUTION

Actuarial Valuation Date	January 1, 2025
Data Collection Date	December 31, 2024
Actuarial Cost Method	Entry Age Normal (Level % Pay)
Amortization Method	Level Dollar (Closed)
Amortization Target	Layered*
Asset Valuation Method	5-Year Smoothed Market Value

*The Funding Policy established that future sources of Unfunded OPEB Liability will be amortized on a level dollar basis and paid off over separate, closed 15-year periods. In any year the Total OPEB Liability is less than the Actuarial Value of Assets, the City will fresh start any outstanding bases from prior years and the total amount of overfunding that year will be amortized as a credit to be paid off over 25 years on a level dollar basis.

SCHEDULE OF AMORTIZATION – UNFUNDED ACCRUED LIABILITY

Unfunded Liability Base	Initial Balance	Date Established	Current Balance	Years Remaining	Payment
Initial Unfunded Liability	$ (303,867)	12/31/2024	$ (303,867)	25	$ (21,560)
Total	$ (303,867)		$ (303,867)		$ (21,560)

Per the City's Funding Policy adopted May 22, 2023, we reset the amortization bases by removing the bases from prior years.

CURRENT OPEB FUNDING RECOMMENDATION

	Prior Valuation	Current Valuation
Employer Normal Cost[1]	$ 7,800	$ 4,133
Amortization of Unfunded Accrued Liability/(Surplus)	(19,980)	(21,560)
Recommended Contribution[2]	$ -	$ -

There is no Recommended Contribution in the Current Year Due to the Funded Status.

(1) Employer Normal Cost Contribution includes interest through the end of the Fiscal Year.

(2) There is no contribution required under the Funding Policy for the OPEB Trust. The Plan is currently overfunded, and the credit for overfunding exceeds the Normal Cost. The recommended contribution has been limited to not go below $0.

LOW-DEFAULT-RISK OBLIGATION MEASURE - PURPOSE

The Pension Committee of the Actuarial Standards Board adopted changes to Actuarial Standards of Practice No. 4 ("ASOP 4"). ASOP 4 is titled "Measuring Pension Obligations and Determining Pension Plan Costs or Contributions". The changes were adopted by the Actuarial Standards Board in December 2021 and are effective for reporting and Measurement Dates on or after February 15, 2023.

One change is the requirement for all Funding Actuarial Valuations to include a Low-Default-Risk Obligation Measure ("LDROM"). In its simplest form, the LDROM is a measure of Actuarial Liability determined using a low-risk Expected Rate of Return on Investments. The LDROM is not intended to replace the Actuarial Liability used to determine the Recommended Contribution amount calculated in this report. The intention is to provide additional information on the Funded Status of the Plan and benefit security.

The Low-Default-Risk Obligation Measure is shown below as of the Measurement Date. The discussion that follows provides more information on the assumptions and methods used to determine the LDROM and some interpretation of the results.

LOW-DEFAULT-RISK OBLIGATION MEASURE

	Current Valuation
Low-Default-Risk Obligation Measure	$ 1,866,316
Market Value of Assets	2,151,651
Obligation not Covered by Current Assets	$ (285,335)

The Low Default Risk Obligation Measure Shown is Not Intended to Replace the Funding Liability used for Recommended Contribution Purposes.

The Obligation not Covered by Current Assets shown above is for illustration of the Low-Default-Risk Obligation Measure only and is not intended for any other purposes. The amount of Obligation not Covered by Current Assets should not be used for pension funding or financial statement reporting purposes. In addition, the Obligation not Covered by Current Assets amount should not be used for any other assessments related to pension funding, such as assessing Unfunded Liability for the purpose of issuing Pension Obligation Bonds. Discussion of any of these items should be handled separately.

LOW-DEFAULT-RISK OBLIGATION MEASURE

Selection of the Discount Rate

Under Actuarial Standards, a Discount Rate should be selected from a source that develops the rate using low-default-risk fixed income securities. In addition, the fixed income securities should be reasonably consistent with the pattern of expected benefit payments from the Fund.

The Low-Default-Risk Obligation Measure has been valued using the FTSE Pension Discount Curve. The FTSE Pension Discount Curve is determined using rates from corporate bonds that are rated AA (from the FTSE U.S. Broad Investment Grade Bond Index) and yields from the FTSE Russell's Treasury model curve. The result is a set of investment grade zero coupon bond rates with maturities from 6 months to 30 years.

The equivalent single discount rate that would produce the same liability as the FTSE Pension Discount Curve is 5.15%.

There are other indices constructed that are appropriate for this disclosure as well. They could produce Discount Rates that are higher or lower than the LDROM shown here. An increase/decrease in the discount rate of 50 basis points (0.50%) would decrease/increase the LDROM by (2.48%)/2.60%, respectively. In our opinion, the FTSE Pension Discount Curve meets the requirements of the disclosure of the LDROM. The curve is constructed using investment grade corporate bonds. In addition, the rates are updated monthly and the current rates used (as of the Measurement Date of this report) are reflective of current market conditions. Finally, the use of a yield curve as opposed to a single rate allows the flexibility for the LDROM to be determined in a manner consistent with the pattern of expected benefit payments.

The Discount Rate is intended for the current Measurement Date only. In order to stay consistent with the prevailing market conditions, the Discount Rate will be assessed and updated each year at each new Measurement Date.

Selection of the Actuarial Cost Method

The Standard requires the use of an immediate-gain Actuarial Cost Method. We have elected to use the Entry Age Normal cost method for measurement of the LDROM. Entry Age Normal is being applied on a percent of pay basis. The Cost Method is the same method used for the determination of the Recommended Contribution in this report.

Other immediate-gain Actuarial Cost Methods are available and acceptable for use in the determination of the LDROM. Other acceptable methods include benefits-based methods and accrued benefit methods. We selected the Entry Age Normal method due to the fact that benefit liability in this Fund is not typically settled with one-time payments. For example, the Plan does not pay lump sums (except refunds of Member Contributions) and is not anticipated to settle liability through the purchase of annuity contracts. Therefore, the usefulness of a benefits-based method is much more limited in interpretation of this measure as it relates to benefit security.

Interpretation of the LDROM

The Low-Default-Risk Obligation Measure is lower than the liability used for the Recommended Contribution determination by $14,310.

Actuarial Liability is determined in different ways based on the purpose of the measurement. The Actuarial Liability for the Recommended Contribution purposes is used to develop a contribution amount that, when combined with other sources of funding (including Member Contributions and expected investment returns), would pay all future expected benefits. The expected investment returns under this scenario are based on the current asset allocation and capital market expectations of the Fund. Assets are invested in a way that involves risk. Actual returns can vary significantly year-to-year above and below expectations. The trade-off is a risk-premium over the long-term and above low-risk market rates.

The LDROM, by contrast, is developed using low-risk returns available in the market. These returns could be obtained theoretically with low-risk of deviation from expectation, and lower expectation (i.e. there is no risk-premium). The LDROM, then, can be thought of as the amount of money that should be set aside today to appropriately fund and prepare for all future benefit payments, if the assets were invested in relatively low volatility assets available in the market today.

The expected decrease in the liability for funding purposes as compared to the LDROM can be thought of as cost savings from investing in riskier assets, with higher long-term return expectations. At the same time, this difference also represents a risk factor for the OPEB Trust Fund as the Fund is reliant on receiving the expected return on investments, including a risk premium. Contributions, combined with these investment returns, are required in order to fund future benefit payments.

LOW-DEFAULT-RISK OBLIGATION MEASURE VS ACTUARIAL LIABILITY

	Current Valuation
Low-Default-Risk Obligation Measure	$ 1,866,316
Actuarial Accrued Liability (Entry Age Normal)	1,880,626
Difference	$ (14,310)

The Low Default Risk Obligation Measure Shown is Not Intended to Replace the Funding Liability used for Recommended Contribution Purposes.