

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE F--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description: The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided--Defined Benefit. The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, established and amends the benefit provisions of the participants in MERS. Benefit terms, within the guidelines established by MERS, are established and amended by the Road Commission Board, usually after negotiation of terms with applicable unions. Any changes to the plan, including cost of living adjustments, would have to be approved by the Road Commission Board in this manner also.

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NOTES TO FINANCIAL STATEMENTS
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NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Benefits Provided:

	2023 Valuation	
	<u>01 - Comm/Sal/Non-Un: Closed to new hires, linked to Division 12</u>	<u>10 - Union: Closed to new hires, linked to Division 12</u>
Benefit Multiplier:	2.5% Multiplier (80% max)	2.5% Multiplier (80% max)
Normal Retirement Age	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/20	-
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	3 years	5 years
COLA for Future Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)
COLA for Current Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)
Employee Contributions:	0.00%	0.00%
Act 88:	Yes (Adopted 8/11/1969)	Yes (Adopted 8/11/1969)
	<u>11 - Hourly Non-Union: Closed to new hires, linked to Division 12</u>	<u>12 - Non-Un aft 10/14 & Un aft 10/11: Open Division, linked to Div 01, 10, 11</u>
Benefit Multiplier:	2.50% Multiplier (80% max)	1.70% Multiplier (no max)
Normal Retirement Age	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/20	-
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	3 years	5 years
COLA for Future Retirees:	2.50% (Non-Compound)	-
COLA for Current Retirees:	2.50% (Non-Compound)	-
Employee Contributions:	0.00%	0.00%
Act 88:	Yes (Adopted 8/11/1969)	Yes (Adopted 8/11/1969)

Employees covered by benefit terms: At the December 31, 2023, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>23</u>
Total employees covered by MERS Plan	<u>69</u>

Contributions: The Road Commission is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

For the year ended December 31, 2024, the Road Commission's contribution rate was \$8,042 monthly for Comm/Sal/Non-Union employees; \$34,403 for Union employees; \$27,362 for Hourly Non-Union and 8.79% monthly for Non-Union after 10/14 and Union after 10/11.

Net Pension Liability

The employer's net pension liability reported at December 31, 2024 was measured as of December 31, 2023, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation performed as December 31, 2023. Update procedures were used to roll forward the total pension liability to the measurement date of December 31, 2024.

Actuarial assumptions: The total pension liability in the December 31, 2023, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	3.0% in the long-term
Investment Rate of Return	6.93%, net of investment expense and administrative expense including inflation

Mortality rates used were a version of Pub-2010 and fully generational MP-2019, based upon the experience study dated February 14, 2020.

The actuarial assumptions used in the December 31, 2023; valuation was based on the results of the most recent actuarial experience study in 2014-2018.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Gross Return	Long-Term Expected Gross Return Contribution	Inflation Assumption	Long-Term Real Rate of Return
Global Equity	60%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20%	4.66%	0.93%	2.50%	0.43%
Private Investments	20%	9.00%	1.80%	2.50%	1.30%
Total	100%		6.93%		4.43%

Discount rate: The discount rate used to measure the total pension liability is 7.18% for the valuation on December 31, 2023. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances as of December 31, 2023	\$ 14,773,431	\$ 10,201,563	\$ 4,571,868
Changes for the Year:			
Service Cost	141,097	-	141,097
Interest	1,036,911	-	1,036,911
Experience	197,083	-	197,083
Changes in Assumptions	93,945	-	93,945
Contributions--Employer	-	1,423,658	(1,423,658)
Contributions--Employees	-	4,150	(4,150)
Net investment income	-	764,008	(764,008)
Benefit payments, including refunds	(1,083,505)	(1,083,505)	-
Administrative expense	-	(22,963)	22,963
Other Changes	4,163	-	4,163
Net changes	<u>389,694</u>	<u>1,085,348</u>	<u>(695,654)</u>
Balances as of December 31, 2024	<u>\$ 15,163,125</u>	<u>\$ 11,286,911</u>	<u>\$ 3,876,214</u>

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.18%, as well as what the change in the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower or 1% higher than the current rate.

	<u>Current</u>		
	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability at December 31, 2024		\$ 3,876,214	
Change in Net Pension Liability (NPL)	\$ 5,335,981		\$ 2,624,114

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas, for funding purposes it is net of administrative expenses.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions

For the year ended December 31, 2024, the Road Commission recognized pension expense of \$857,642. As of December 31, 2024, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in Experience	\$ 214,511	\$ -
Differences in Assumptions	62,630	-
Excess (Deficit) Investment Returns	<u>314,092</u>	<u>-</u>
Total	<u>\$ 591,233</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2025	\$ 326,301
2026	337,655
2027	(70,174)
2028	(2,549)

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE G--OTHER POSTEMPLOYMENT BENEFITS

Plan Description: The Iron County Road Commission Retiree Medical Plan is a single employer plan established and administered by Iron County Road Commission and can be amended at its discretion. The Road Commission provides post-employment healthcare insurance and life insurance benefits to specified retired employees and/or their spouse. The benefits are provided in accordance with Article 50, Section 9, and Article 51, Section 2, of the union agreement.

Summary of Significant Accounting Policies: For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Iron County Road Commission Retiree Medical Plan and additions to / deductions from the Road Commission's fiduciary net position have been determined on the same basis as they are reported by the Iron County Road Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided: Healthcare benefits are provided upon retirement as follows: Medical is provided from age 60 with 10 years of service or age 55 with 15 years of service. Employees hired prior to February 1, 1986, will receive benefits for the retiree's lifetime. Employees hired after February 1, 1986 will receive fully paid pre-65 benefits provided for two years. Life Insurance will be provided from age 60 and 10 years of service and hired prior to September 13, 2011. The Road Commission will provide pre 65 insurance coverage, plan coverage complementary to Medicare and life insurance coverage of \$8,000. No coverage is offered for spouses. No retiree contribution is required.

Employees covered by benefit terms. At the December 31, 2024, the following employees were covered by the benefit terms:

Active plan members	25
Retirees and beneficiaries	<u>20</u>
Total Members	<u>45</u>

Contributions. The Iron County Road Commission Retiree Medical Plan was established and is being funded under the authority of the Road Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is to pay expected plan benefits from general operating funds on a "pay-as-you-go" basis. A trust account was established with MERS at the end of 2024. During the year ending December 31, 2024, the post-retirement healthcare benefits paid and contributions to the OPEB trust were \$178,570.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net OPEB Liability. The Road Commission’s net OPEB liability was measured as of December 31, 2024. The December 31, 2024, total OPEB liability was determined by an actuarial valuation performed as of December 31, 2024.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2024, and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.0% (for purpose of allocating liability)
Investment rate of return	6.93% (including inflation)
20-year Aa Municipal bond rate	4.28% (S&P Municipal Bond 20-Year High Grade Rate Index)
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted
Improvement Scale	IRS 2024 Adjusted Scale MP-2021

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan’s target asset allocation as of September 30, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60.0%	4.50%
Global Fixed Income	20.0%	2.16%
Private Assets	20.0%	6.50%

The sum of each target allocation times its long-term expected real rate is 6.93%, including inflation.

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NOTES TO FINANCIAL STATEMENTS
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NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate. The discount rate used to measure the total OPEB liability was 4.28%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will first use assets to pay benefits and then pay benefits on a pay-as-you-go basis. Based on this assumption, the retirement plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. As of December 31, 2023, the discount rate used to value OPEB liabilities was 4.00%.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance as of December 31, 2023	\$ 1,864,360	\$ -	\$ 1,864,360
Changes for the year			
Service Cost	17,410	-	17,410
Interest	71,939	-	71,939
Experience (Gains)/Losses	116,183	-	116,183
Change in plan terms	125,506	-	125,506
Change in actuarial assumptions	21,325	-	21,325
Contributions to OPEB trust	-	12,045	(12,045)
Contributions/benefit paid from general operating funds	-	166,525	(166,525)
Net investment income	-	(103)	103
Benefit payments; including refunds of employee contributions	(166,525)	(166,525)	-
Administrative expense	-	(8)	8
Total changes	185,838	11,934	173,904
Balance as of December 31, 2024	\$ 2,050,198	\$ 11,934	\$ 2,038,264

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.

The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$ 2,697,611	\$ 2,050,198	\$ 1,636,511
Plan Fiduciary Net Position	11,934	11,934	11,934
Net OPEB Liability	2,685,677	2,038,264	1,624,577

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB Liability	\$ 1,808,950	\$ 2,050,198	\$ 2,140,978
Plan Fiduciary Net Position	11,934	11,934	11,934
Net OPEB Liability	1,797,016	2,038,264	2,129,044

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2024, the Road Commission recognized OPEB expense of (\$16,769). As of December 31, 2024, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 102,225	\$ 8,540
Assumption changes	47,718	116,507
Investment Earnings (Gains)/Losses	285	-
Total	\$ 150,228	\$ 125,047

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
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NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2025	\$ (58,680)
2026	26,157
2027	26,720
2028	26,721
2029	4,263

NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings, and contents) and workers' compensation. The Road Commission's maximum deductible for property and liability coverage, and automobile coverage is \$1,000 per occurrence. The maximum liability for the property and liability coverage is \$10,500,000 per occurrence. The automobile coverage provides for limits of liability of \$250,000 per person, \$500,000 per accident and \$1,000,000 in total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Pool pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection.

Membership is restricted to road commissions and related road commission activities with the State. The Road Commission became a member of the Pool for liability and property coverage in 1991 and for workers' compensation coverage in 1993. The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.