

CATA Memorandum

To: Michigan Department of Treasury, Local Retirement Reporting Team
From: Patrick S. Lemon, Director of Finance
Date: 8/21/2019
Sub: Capital Area Transportation Authority Retirement Health Benefit Corrective Action Plan

CATA's Other Post-Employment Benefits (hereinafter "OPEB") liability as of the date of the most recent valuation (September 30, 2018) stood at \$50,950,992, while OPEB Trust assets stood at \$8,155,213, leaving a net OPEB liability of \$42,795,779.

CATA's obligation to cover employees following retirement stems from two sources:

1. CATA's collective bargaining agreement with the Amalgamated Transit Union (hereinafter the "Union Contract"), and
2. CATA's Administrative Employee Guidebook (hereinafter the "Admin Handbook").

It should be noted that CATA's existing Union Contract expires on November 30, 2019.

EXISTING PLAN PROVISIONS

The provisions of the Union Contract that are significant to the calculation of the OPEB liability are as follows:

- Eligibility/Service period – the existing Union Contract contains three distinct eligibility groups depending on an employee's hire date.

Group	Hire Date After:	Hire Date Before	Service Period In Years	Retirement Age
1	N/A	12/1/2004	1	59
2	12/1/2004	12/1/2009	5	59
3	12/1/2009	N/A	10	60

- The level of medical benefits to be provided to retirees (or their spouses) prior to age 65 must match that provided to active employees covered under the Union Contract.
- The level of medical benefits to be provided to retirees (or their spouses) age 65 and older must be equal to that provided under Medicare Supplemental benefits underwritten by BC/BS of MI.

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- Employees that retire early, with at least 10 years of service, cannot receive OPEB benefits until they reach retirement age.
- Employees that retire early with less than 10 years of service are not eligible at any time for OPEB benefits.
- Surviving spouses are to receive retiree medical benefits only until age 65 or for 20 years, whichever occurs first.
- Retirees age 65 or older are to receive the same prescription drug benefits as the pre-age 65 retirees.
- Spouses of retirees that have other medical benefits available to them will not be covered under CATA's retiree medical plan.
- Retirees are required to pay participation fees to CATA to be covered under retiree medical benefits.

The provisions of the Administrative Plan are virtually identical to that of the Union Plan.

ESTABLISHMENT OF OPEB TRUST

CATA's OPEB Trust was created September 28, 2009.

HISTORY OF TRUST FUNDING AND PARTICIPATION FEES

CATA has made the following employer contributions to the OPEB Trust since its creation in 2009:

Year	Contribution
2010	\$788,000
2011	\$441,000
2012	\$463,050
2013	\$510,512
2014	\$562,839
2015	\$536,038
2016	\$0
2017	\$590,980
2018	\$620,529
2019	\$651,555

Retirees participating in CATA's Retirement Health Benefit Plan have been required to make contributions to the Plan since 2005. The annual contributions required of retirees pursuant to the plan have been as follows:

3/01/2005 – 2/28/2006 \$9/week

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3/01/2006 – 2/28/2007 \$10/week

3/01/2007 – 2/28/2008 \$11/week

3/01/2008 – 2/28/2009 \$12/week

3/01/2009 – 2/28/2016 \$13/week

3/01/2016 – 2/28/2017 \$22/week

3/01/2017 – 2/28/2018 \$24/week

3/01/2018 – 2/28/2019 \$26/week

3/01/2019 – 11/30/2019 \$28/week

OTHER ACTIVITIES TO DATE

In May 2018, CATA management formed a committee to investigate and understand its current OPEB situation, to develop an OPEB corrective action plan and, ultimately, to implement the CAP. The committee consists of CATA's Chief Executive Office, Deputy Chief Executive Officer, Director of Finance and Human Resources Manager.

In June 2018, CATA engaged Plante Moran (an international certified public accounting and consulting firm) to perform an analysis and evaluation of CATA's OPEB plan and to present and educate CATA's management on potential options to address its underfunded OPEB obligation.

In October 2018, Plante Moran provided CATA with a report that provided information concerning retiree medical findings, alternative plan designs and cost impacts of potential changes to the plan.

CORRECTIVE ACTION PLAN

CATA will seek to close the OPEB plan to new hires effective December 1, 2019. Further, CATA will seek to freeze OPEB benefits for retirees and active members at the level in effect on that date.

Further, CATA intends to implement a defined contribution plan ("DCP") for retiree health during the fall of 2019. Employees hired on or after December 1, 2019 will have the opportunity to enroll in that plan. CATA will seek to convert active employees covered under the existing OPEB plan to the new DCP through financial incentives.

Additionally, CATA intends to continue funding the plan at the current level until plan assets meet or exceed plan liabilities. Based upon reports provided by our actuarial firm, CATA's OPEB liability should decrease each year (as per the schedule below) and will meet the 40% requirement under PA 202 on or around 2021 with the plan fully funded on or around 2030.

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Lastly, CATA will continue to explore additional options with the Amalgamated Transit Union to provide healthcare benefits after retirement yet resolve its OPEB liability.

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 Analysis of OPEB Liability

Year	Liability	Asset Balance	Earnings	Funding	Unfunded Liability	Funded %
2019	\$ 23,100,000	\$ 8,000,000	\$ 400,000	\$ 651,555	\$ 15,100,000	35%
2020	\$ 23,500,000	\$ 9,051,555	\$ 452,578	\$ 684,133	\$ 14,448,445	39%
2021	\$ 23,800,000	\$ 10,188,266	\$ 509,413	\$ 700,000	\$ 13,611,735	43%
2022	\$ 24,100,000	\$ 11,397,679	\$ 569,884	\$ 700,000	\$ 12,702,321	47%
2023	\$ 24,200,000	\$ 12,667,563	\$ 633,378	\$ 700,000	\$ 11,532,437	52%
2024	\$ 24,200,000	\$ 14,000,941	\$ 700,047	\$ 700,000	\$ 10,199,059	58%
2025	\$ 24,100,000	\$ 15,400,988	\$ 770,049	\$ 700,000	\$ 8,699,012	64%
2026	\$ 24,000,000	\$ 16,871,037	\$ 843,552	\$ 700,000	\$ 7,128,963	70%
2027	\$ 23,700,000	\$ 18,414,589	\$ 920,729	\$ 700,000	\$ 5,285,411	78%
2028	\$ 23,100,000	\$ 20,035,319	\$ 1,001,766	\$ 700,000	\$ 3,064,681	87%
2029	\$ 22,500,000	\$ 21,737,085	\$ 1,086,854	\$ 700,000	\$ 762,915	97%
2030	\$ 21,800,000	\$ 23,523,939	\$ 1,176,197	\$ -	\$ (1,723,939)	108%

Assumptions:

- *Liability per actuarial model
- *No new participants
- *Benefits frozen at current levels
- *Earnings of 5% on asset balance
- *Funding at approximately \$700K per year
- *Assets will be used to pay benefits once fully funded

APPROVAL BY CATA’S GOVERNING BODY

CATA’s Board of Directors approved CATA’s CAP at its August 21, 2019 meeting.