

Bay County Employees' Retirement System

Annual Actuarial Valuation Report
for Bay-Arenac Behavioral Health Authority
December 31, 2023



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September 24, 2024

Board of Trustees
Bay County Employees' Retirement System
Bay City, Michigan

**Re: Bay-Arenac Behavioral Health Authority Actuarial Valuation as of December 31, 2023
Actuarial Disclosures**

Dear Board Members:

The results of the December 31, 2023 Annual Actuarial Valuation of the Bay County Employees' Retirement System – Bay-Arenac Behavioral Health Authority (BABH) are presented in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the System's funding progress and to determine the employer contribution rate for the calendar year ending December 31, 2025. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The contribution rate shown in this report is determined using the actuarial methods and assumptions disclosed in Section D of this report. This report includes risk metrics on pages F-1 and F-2, but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. This report also includes a discussion of the required Low-Default-Risk Obligation Measure (LDRM) on page F-3. We encourage a review and assessment of investment and other significant risks which may have a material effect on the System's financial condition.

We have assessed that the contribution rate calculated under the current funding policy is a reasonable Actuarially Determined Employer Contribution (ADEC) and it is consistent with the plan accumulating adequate assets to make benefit payments when due.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through December 31, 2023. The valuation was based upon information furnished by the County, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the County.

This report was prepared using assumptions adopted by the Board. All actuarial assumptions used in this report are reasonable for the purposes of this valuation. The combined effect of the assumptions is expected to have no significant bias (i.e., not significantly optimistic or pessimistic). All actuarial assumptions used in this report are reasonable for the purposes of this valuation. All actuarial assumptions and methods used in the valuation follow the guidance in the applicable Actuarial Standards of Practice. Additional information about the actuarial assumptions is included in the section of this report entitled Actuarial Cost Methods and Actuarial Assumptions.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

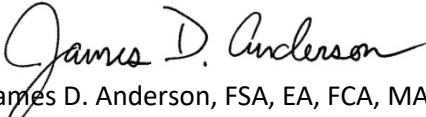
This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the Bay County Employees' Retirement System - BABH as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

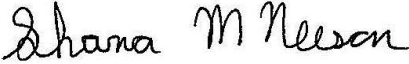
James D. Anderson, Shana M. Neeson, and Stephanie Sullivan are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board of Trustees and to answer any questions pertaining to the valuation.

Respectfully submitted,
Gabriel, Roeder, Smith & Company


James D. Anderson, FSA, EA, FCA, MAAA


Shana M. Neeson, ASA, FCA, MAAA


Stephanie Sullivan, ASA, MAAA

JDA/SMN/SS:ah



SECTION A

EXECUTIVE SUMMARY

Executive Summary

1. Required Employer Contributions

The computed employer contributions **exclusive of employer paid "member" contributions** are as follows:

Division	Valuation Year	Contribution Rate	
		12/31/2022	12/31/2023
	Calendar Year	1/1/2024	1/1/2025
BABH		5.81 %	3.32 %

It is important to remember that the current contribution rate is lower than the long-term cost of the plan (the normal cost). This is because BABH has overfunding credits. The credits reduce the required contribution below the normal cost until the overfunding is eliminated. ***If future experience were to exactly match each of the assumptions, the employer contribution rate would not remain level. Increases would occur over time and contribution rates would increase towards the normal cost or long-term cost of the benefits.***

2. Funded Ratio Comparison

The funding percentage for BABH is shown below:

Division	Funded Ratio	
	12/31/2022	12/31/2023
BABH	105 %	107 %

This year's valuation assets represent 107.2% of accrued liabilities; last year the ratio was 104.6%. If the valuation results were based on market value of assets instead of smoothed funding value, the funded percent of the plan would be 100.5%.

3. Reasons for Change

There are three general reasons why contribution rates change from one valuation to the next.

1. The first is a change in the benefits or eligibility conditions of the plan. There were no changes in benefits.
2. The second is a change in the valuation assumptions used to predict future occurrences. There were no changes in assumptions.
3. The third is the difference during the year between the plan's actual experience and what the assumptions predicted. This is discussed on the following page.

4. 2023 Plan Experience

The aggregate experience during 2023 was favorable, with an overall gain/(loss) of \$1,896,819. The detailed gain/(loss) information is shown on page B-7.

Investment return on the market value of assets for calendar year 2023 exceeded the assumed rate of return for the valuation (see page C-4). However, the asset smoothing method only recognizes 20% of a given year's investment gain or loss. Partial recognition of gains and losses from prior years along with this year's gain resulted in an overall gain on the funding value of assets. In addition to the investment experience gain, there was a non-investment gain due to more terminations than expected. These gains were partially offset by larger than expected pay increases.

5. Retiree Reserve Balance

The retiree accrued liabilities are larger than the reported retiree reserve balances. For detail see Comment A on page B-5.

6. Looking Ahead

Investment income greater than or less than expected based on the investment return assumption is recognized over a five-year period under the current asset valuation method. As of December 31, 2023, the funding value of assets was 106.7% of market value. Due to investment performance during the previous five years, unrecognized investment gains and losses exist that are scheduled to be recognized over the next four years. Given that actuarial assumptions are realized, this is expected to put upward pressure on the required contribution amounts calculated in the near term.

SECTION B

VALUATION RESULTS AND COMMENTS

Financial Objective

The financial objective of the Retirement System is to establish and receive contributions, expressed as a percentage of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.

Your annual actuarial valuations determine how well the objective is being met.

The Board of Trustees of the Bay County Employees' Retirement System confirms that the System provides for payment of the required employer contribution as described in Section 20m of Michigan Public Act No. 728 of 2002.

Contribution Rates

The Retirement System is supported by contributions from the employers, by member contributions and by the investment income earned on System assets. For some divisions, the required member contributions are paid by the Employer either through contributions to the System or by transferring funds from the employer reserves to the employee reserves. In addition, the Employer provides an actuarially determined contribution.

Member and Employer contributions cover both: i) normal cost, and ii) the financing of the unfunded accrued liability over a period of future years. The normal cost is the portion of System costs allocated to the current year by the valuation method described on page D-1. The unfunded accrued liability is the portion of System costs not covered by present System assets and future normal costs.

The contribution requirements for the calendar year beginning January 1, 2025 are presented on page B-2.

Contributions to Provide Benefits Member Portion and Employer Portion Calendar Year Beginning January 1, 2025

Contributions for	% of Active Payroll BABH
Normal cost of benefits:	
Age & service	8.31 %
Disability	0.30
Death-in-service	0.14
Total	8.75
Member contributions [#] :	
Total	4.00
Future refunds	0.74
Available for pensions	3.26
Administrative expenses	0.45
Employer normal cost	5.94
Unfunded accrued liability	(2.62)
Computed Employer Rate	3.32 %

[#] The member contributions are paid by the employer, either by directly contributing to the Retirement System or by transferring funds from employer reserves to employee reserves.

Unfunded actuarial accrued liabilities were amortized as a level percent of member payroll over a closed period of 19 years and an asset surplus was amortized over an open period of 20 years. Since there was an asset surplus for this valuation, the 20-year open period applied.

The required employer contribution rate determined above is reasonable under Actuarial Standard of Practice (ASOP) No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, based on:

- The use of reasonable actuarial assumptions and cost methods; and
- The use of reasonable amortization and asset valuation methods.

The procedure for determining dollar contribution amounts is shown on page B-3.

Page B-4 displays the unfunded accrued liabilities (asset surpluses) that are amortized by the contribution rates shown above.



Determining Dollar Contributions

For any period of time, the percent-of-payroll contribution rates need to be converted to dollar amounts. We recommend one of the following procedures:

- (1) Contribute dollar amounts for a period which are equal to the employer's percent-of-payroll contribution requirement multiplied by the covered active member payroll for the period. Adjustments should be made as necessary to exclude items of pay that are not covered compensation for Retirement System benefits and to include non-payroll payments that are covered compensation; or
- (2) Contribute the dollars based on the table shown below:

<u>Group:</u>	<u>BABH</u>
Contribution:	\$ 491,050

This amount is based on the payroll information provided for the valuation.

Timing of Contribution Payments

The contribution requirements in this report anticipate regular payments throughout the year. Examples would be at each payroll date or in 12 monthly installments. If the employer contribution pattern is significantly different, an adjustment to the costs may be appropriate. For example, a lump sum contribution at the beginning of the year is available for investment throughout the year and, therefore, ought to be somewhat smaller than 12 monthly payments. Similarly, a lump sum contribution at the end of the year will not generate any investment income that year.

Determination of Unfunded Accrued Liability

	<u>BABH</u>
A. Accrued liability	
1. For retirees and beneficiaries	\$ 41,212,971
2. For vested terminated members	3,755,747
3. For present active members	
a. Value of expected future benefit payments	33,918,558
b. Value of future normal costs	<u>10,659,883</u>
c. Active member liability: (a) - (b)	<u>23,258,675</u>
4. Total actuarial accrued liability	68,227,393
B. Valuation assets	73,118,552
<hr/>	
C. Unfunded accrued liability (Excess assets)*: (A.4) - (B)	(4,891,159)
D. Funding ratio: (B) / (A.4)	107.2%

* The outstanding unfunded accrued liability balance associated with the ERIP is \$184,214 as of December 31, 2023.

Comments

Comment A: We developed the value of anticipated future benefit payments to retired members and their beneficiaries. We then compared this accrued liability to the reported value of the retirement reserve account. The figures below compare the retired liabilities and reserves.

Division	Retiree Accrued Liability	Reported Retiree Reserve	Unfunded Retiree Liability
BABH	\$41,212,971.00	\$36,329,557.41	\$4,883,413.59

As of the valuation date, there is a shortfall in the retiree reserve. This valuation anticipates that the difference between the accrued liability and the reported reserve will be transferred from the Retirement System employer reserve to the retiree reserve effective January 1, 2024 to fully fund the retiree accrued liability.

Comment B: The contribution rate decreased during the year from 5.81 to 3.32%, primarily due to favorable investment performance, more terminations than expected, and completion of the ERIP payment schedule. Results are discussed further in items 4 and 5 on page A-2 and on page C-4.

Comment C: The chart on page B-7 shows the experience gain/(loss) for 2023. The development of the investment gain/(loss) is shown on page B-8.

Comment D: The introduction of GASB Statements No. 67 and No. 68 served to completely disconnect pension accounting from pension funding. This means that the Annual Required Contribution is no longer applicable. As part of good governance, we would be happy to supply the Board with a draft funding policy for consideration. In particular, this document would codify methods, assumptions and other key items related to pension funding, including perhaps a minimum contribution equal to a percentage of the normal cost for currently overfunded plans.

Comment E: Assumptions were updated for the December 31, 2022 valuation after a review was performed.

Comment F: Under Public Act 202 of the State of Michigan, Michigan municipalities are required to report liabilities under uniform assumption guidelines. While the current guidelines are only for reporting purposes (and not funding), governments may be encouraged to use these new assumptions for funding. For efficiency in compliance, and consistency with past practice, we produce this information for inclusion with the annual GASB report.

Comment G: Under Sec. 4(1)(d) of Public Act 202 of the State of Michigan, local units of government are required to have a peer actuarial audit conducted by an actuary that is not the plan actuary or replace the plan actuary at least every eight years. Given the implementation of Public Act 202, it is our understanding that the audit requirement must be met prior to January 1, 2026. GRS can work with the Board and Staff to ensure compliance.

Disclosures

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.25% on the actuarial value of assets), the following outcomes are expected:

1. The employer normal cost as a percentage of pay is expected to remain level as a percentage of payroll.
2. The unfunded liability associated with the ERIP is expected to be paid off during calendar year 2024.
3. The funded status of the plan is expected to decrease gradually towards a 100% funded ratio.

Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

1. The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.
2. The measurement is inappropriate for assessing the need for or the amount of future employer contributions.
3. The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

Determination of Experience Gain/(Loss) Year Ended December 31, 2023

Actual experience will never (except by coincidence) exactly match assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the determination of the experience gain/(loss) is shown below:

	BABH
(1) Unfunded Actuarial Accrued Liabilities (UAAL) at start of year	\$ (3,053,001)
(2) Normal cost for the year 2023	1,422,046
(3) Actual employer & employee contributions	(1,151,727)
(4) Net interest accrual on (1), (2) and (3)	(211,658)
(5) Expected UAAL before changes: (1) + (2) + (3) + (4)	(2,994,340)
(6) Change from benefit changes	-
(7) Change from revised actuarial assumptions and methods	-
(8) Expected UAAL after changes: (5) + (6) + (7)	(2,994,340)
(9) Actual UAAL at end of year	(4,891,159)
(10) Actuarial accrued liabilities (AAL) at start of year	66,857,263
(11) Total Gain/(Loss): (8) - (9)	1,896,819
As a percent of AAL at start of year: (11)/(10)	2.8%
(12) Investment Gain/(Loss) ¹ :	1,097,798
As a percent of AAL at start of year: (12)/(10)	1.6%
(13) Non-Investment Gain/(Loss): (11) - (12)	799,021
As a percent of AAL at start of year: (13)/(10)	1.2%

¹ Allocated based on Market Value.

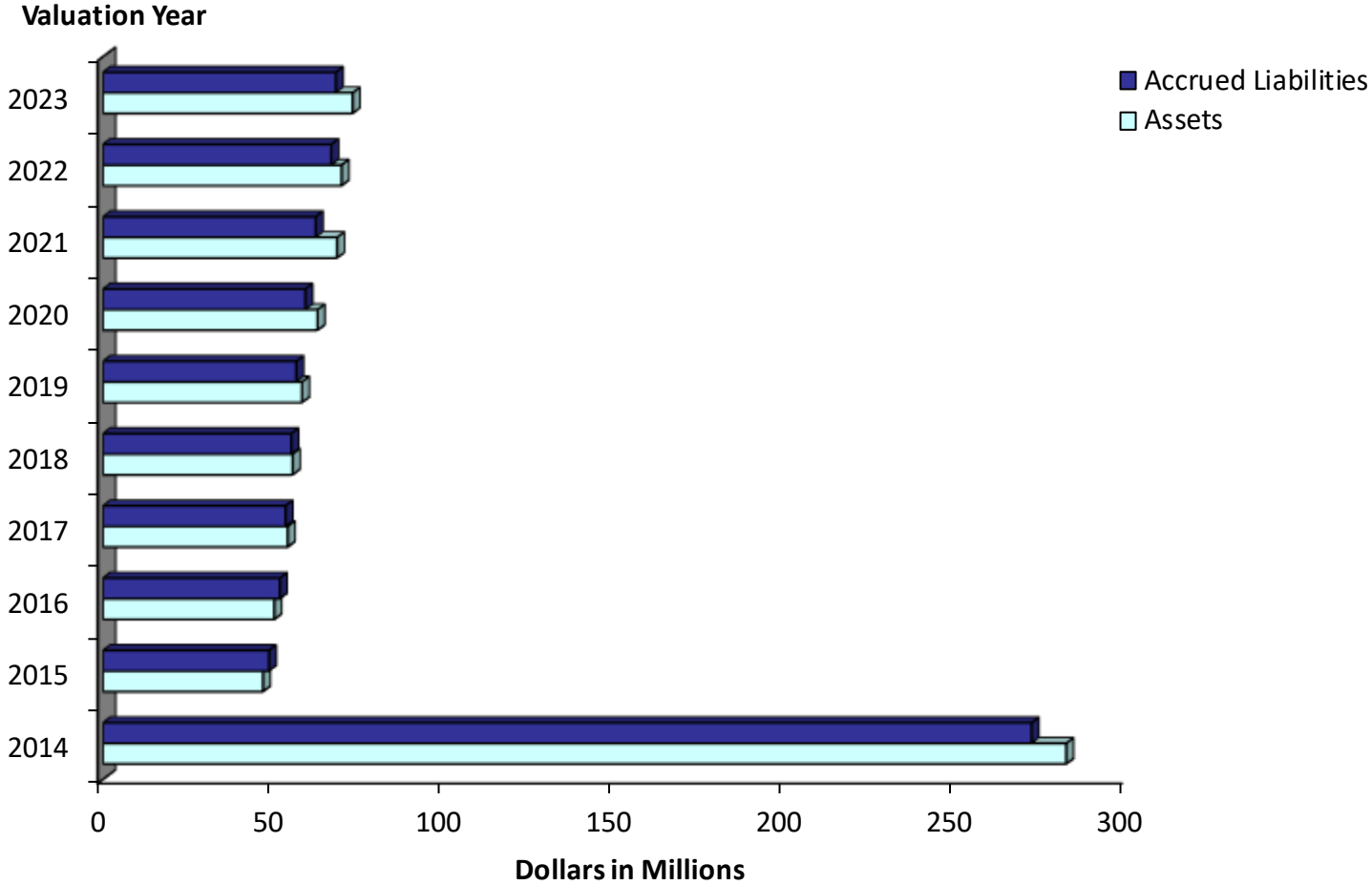
Development of Valuation Investment Gain/(Loss) Year Ended December 31, 2023

We anticipate an average return on valuation assets of 7.25% for future years. The chart below details the development of the investment gain/(loss) for the entire Bay County Employees' Retirement System, including BABH.

(1) Total 2023 valuation investment income	\$ 35,641,801
(2) Average valuation assets	402,794,352
(3) Expected investment income: $(.0725) \times (2)$	29,202,591
(4) Gain/(Loss): $(1) - (3)$	6,439,210
(5) Valuation rate of return for 2023: $(1) / (2)$	8.85 %

Please note that this analysis uses asset values and investment income as defined for the actuarial valuation. It is not, therefore, appropriate as a measure of manager performance.

Assets and Accrued Liabilities



For Valuation Years prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the Valuation Year 2015, the results displayed are for BABH.

2014 assets equaled 103.7% of accrued liabilities.
 2023 assets equaled 107.2% of accrued liabilities.

Computed Contributions - Comparative Statement

Valuation Date	Valuation Payroll			Annual Dollar Requirement	Employer Requirements as Percents of Valuation Payroll@						
	Total	Average	% Incr.		General County	DWS	Library	BABH	Medical Care Facility	Sheriff's Department	Road Commission
12/31/2004 #	\$43,550,999	\$36,202	2.9 %	\$ 405,110	0.00 %	0.00 %	0.68 %	1.11 %	0.00 %	0.00 %	8.19 %
12/31/2005	43,104,046	36,010	(0.5)	588,948	0.00	0.00	1.60	2.53	0.00	0.00	9.34
12/31/2006 #	42,024,045	37,455	4.0	644,945	0.00	0.00	0.00	3.24	0.00	0.00	10.82
12/31/2007 #	44,687,752	39,269	4.8	688,871	0.00	0.00	0.00	3.70	0.00	0.00	9.17
12/31/2008	46,482,897	39,695	1.1	1,578,548	0.00	4.44	0.00	6.95	2.32	0.00	14.13
12/31/2009 ^	47,244,573	40,208	1.3	2,443,118	0.00	7.40	2.74	8.83	5.05	0.00	17.64
12/31/2010	47,090,560	40,771	1.4	3,074,891	1.19	11.71	6.91	9.08	7.36	0.00	18.05
12/31/2011 #	48,583,176	41,702	2.3	4,289,438	4.08	13.77	9.89	10.17	9.57	0.00	20.78
12/31/2012 *	48,571,798	41,444	(0.6)	4,038,100	3.87	15.75	9.26	10.01	7.22	0.55	21.32
12/31/2013 # \$	44,535,708	39,447	(4.8)	4,477,504	0.03	15.72	\$ 89,491	27.04	4.20	0.00	19.14
12/31/2014	46,494,417	40,081	1.6	2,535,295	0.00	14.16	34,265	11.36	2.87	0.00	18.09
12/31/2015	10,331,351	46,961	N/A	990,514				8.95			
12/31/2016 *	10,608,566	48,221	2.7	1,048,375				9.27			
12/31/2017	10,806,001	48,676	0.9	867,441				7.53			
12/31/2018	11,226,851	48,812	0.3	917,980				7.67			
12/31/2019 #	11,186,972	49,282	1.0	797,845				6.69			
12/31/2020	11,666,794	50,947	3.4	672,867				5.41			
12/31/2021	13,318,905	55,495	8.9	592,086				4.17			
12/31/2022 *	13,227,205	57,761	4.1	815,302				5.81			
12/31/2023	13,941,626	59,580	3.1	491,050				3.32			

For Valuation Dates prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the 2015 Valuation Date, the results displayed are for BABH.

Retirement System amended.

* Revised actuarial assumptions or methods.

^ Implementation of a one-year lag between valuation date and first day of the calendar year to which the contributions apply.

@ Beginning with the 2013 valuation, the Library contribution is calculated as a level dollar amount, since the Library is closed to future hires.

\$ Contribution reflects an advanced payment of the BABH unfunded ERIP liability.



SECTION C

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

Brief Summary of Plan Provisions as of December 31, 2023

Division		Retirement Eligibility		
No.	Name	Normal	Early	Deferred
23	Behavioral Health Former AFSCME	Age 55 with 30 yrs of svc or age 60 with 8/62 with 10 [~] yrs of svc	Age 55 with 8/55 with 10 [~] yrs of svc	8/10 [~] yrs of svc
24	Behavioral Health General	Age 55 with 30 yrs of svc or age 60 with 8/62 with 10 ^{&} yrs of svc	Age 55 with 8/55 with 10 ^{&} yrs of svc	8/10 ^{&} yrs of svc

~ Members hired on or after 10/1/2014.

& Members hired after 1/1/2015.

Eligibility

Amount

Normal Retirement

See chart above or age 65 with 0 or more years of service.

Total service times FAC times:

2.00% for division 23 hired before 10/1/2014 for service through 1/1/2020 and 2.25% for service on or after 1/1/2020

2.25% for division 24 hired on or before 1/1/2015

1.60% for division 23 hired on or after 10/1/2014

1.60% for division 24 hired after 1/1/2015

Maximum County-financed is 75% of FAC.

Type of FAC - Highest 5 years. Some lump sums included.

Early Retirement

See chart above.

Normal retirement reduced to the actuarial equivalent of a pension at normal retirement age (age 62 for division 23 hired on or after 10/1/2014 and division 24 hired after 1/1/2015, age 60 for all others).

Deferred Retirement

Service condition as indicated in the chart above. Benefit begins at age 60 (age 62 for division 23 hired on or after 10/1/2014 and division 24 hired after 1/1/2015) or reduced at age 55.

Computed as a normal retirement but based on service and final average compensation at time of termination.

Non-Duty Death-In-Service

10 or more years of credited service at any age.

Computed as a normal retirement but actuarially reduced in accordance with a 100% joint and survivor election.



Brief Summary of Plan Provisions as of December 31, 2023 (Concluded)

Eligibility

Amount

Duty Death-in-Service

No age or service requirements. Benefits begin upon termination of Worker's Compensation.

To the spouse, a refund of accumulated contributions plus a benefit equal to the Worker's Compensation amount. Unmarried children under 18 and parents receive a benefit equal to the Worker's Compensation amount.

Non-Duty Disability

10 or more years of credited service.

Computed as a normal retirement. Worker's Compensation payments may be offset.

Duty Disability

No age or service requirements.

Computed as a normal retirement with additional service credit granted to age 55. Worker's Compensation payments may be offset.

Post-Retirement Cost-of-Living Adjustments

One-time increases have been granted.

Member Contributions

4% of annual compensation.

The employer pays the member contribution either by directly contributing to the Retirement System or by transferring funds from the employer to the employee reserves.

Employer Contributions

Actuarially determined amounts which, together with member contributions, are sufficient to cover both: i) normal costs of the plan, and ii) financing of unfunded accrued liabilities over a selected period of future years.

**Reported Financial Information
Year Ended December 31, 2023
Bay County Employees' Retirement System (in Total)
(Market Value)**

Revenues and Disbursements during 2023

Revenues:

a. Employee contributions	\$ 2,226,649	
b. Employer contributions	1,800,797	
c. Investment income	46,782,569	
d. Miscellaneous income	<u>0</u>	
e. Total		\$50,810,015

Disbursements:

a. Benefits paid	\$ 22,328,500	
b. Refunds of member contributions	333,908	
c. Administrative expenses	473,481	
d. Investment expenses	<u>1,791,480</u>	
e. Total		<u>\$24,927,369</u>

Reserve Increase:

Total revenues minus total disbursements		<u><u>\$25,882,646</u></u>
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Assets and Reserves as of December 31, 2023

Assets:

a. Cash & equivalents [#]	\$ 268,553	
b. Short-term investments	5,392,718	
c. Equities	307,621,893	
d. Fixed Income	84,450,304	
e. Real Estate	2,363,621	
f. Other [^]	<u>1,996,088</u>	
Total	<u><u>\$402,093,177</u></u>	

Reserve Accounts:

a. Employee contributions	\$ 32,711,833	
b. Reserve for benefits now being paid	206,480,567	
c. Reserve for future benefits	162,900,777	
Total	<u><u>\$402,093,177</u></u>	

[#] Adjusted for accruals net of payables and deferred inflows of resources.

[^] Adjusted for deferred outflow of resources.



Development of Valuation Assets

Bay County Employees' Retirement System (in Total)

December 31, 2023

	2022	2023	2024	2025	2026	2027
1. Beginning of Year Assets						
a) Market Value	\$466,990,862	\$376,210,531				
b) Valuation Assets	407,460,369	412,348,573				
2. End of Year Market Value Assets	376,210,531	402,093,177				
3. Net Additions to Market Value						
a) Net Contributions	4,157,084	4,027,446				
b) Net Investment Income = (3d) - (3a) - (3c)	(72,504,541)	44,991,089				
c) Benefit Payments, Refunds, and Admin. Expenses	(22,432,874)	(23,135,889)				
d) Total Additions to Market Value = (2) - (1a)	(90,780,331)	25,882,646				
4. Average Valuation Assets = (1b) + .5 x [(3a) + (3c)]	398,322,474	402,794,352				
5. Expected Income at Valuation Rate = 7.25% x (4)	28,878,379	29,202,591				
6. Gain/(Loss) = (3b) - (5)	(101,382,920)	15,788,498				
7. Phased-In Recognition of Investment Return						
a) Current Year: 0.2 x (6)	(20,276,584)	3,157,700				
b) First Prior Year	7,380,289	(20,276,584)	\$ 3,157,700			
c) Second Prior Year	6,649,621	7,380,289	(20,276,584)	\$ 3,157,700		
d) Third Prior Year	9,528,183	6,649,621	7,380,289	(20,276,584)	\$ 3,157,700	
e) Fourth Prior Year	(8,995,894)	9,528,184	6,649,622	7,380,289	(20,276,584)	\$ 3,157,698
f) Total Recognized Investment Gain	(5,714,385)	6,439,210	(3,088,973)	(9,738,595)	(17,118,884)	3,157,698
8. Change in Valuation Assets (3a) + (3c) + (5) + (7f)	4,888,204	16,533,358				
9. End of Year Assets						
a) Market Value = (2)	376,210,531	402,093,177				
b) Valuation Assets = (1b) + (8)	412,348,573	428,881,931				
c) Difference Between Market & Valuation Assets	(36,138,042)	(26,788,754)	(23,699,781)	(13,961,186)	3,157,698	0
10. Recognized Rate of Return = [(5) + (7f)] / (4)	5.82 %	8.85 %				
11. Market Rate of Return = 2 x (3b) / [(1a) + (2) - (3b)]	(15.84)%	12.27 %				
12. Market Value of Assets for BABH	63,783,360	68,551,433				
13. Funding Value of Assets for BABH	69,910,264	73,118,552				



Retirees and Beneficiaries Comparative Schedule

Year Ended	Added to Rolls*		Removed from Rolls		Rolls End of Year		% Incr. in Annual Allowances	Average Allowance	Discounted Value of Allowances	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances [#]			Total	Average
12/31/1999	23	\$ 295,915 @	29	\$ 83,717	439	\$ 3,746,858	6.0 %	\$ 8,535	\$ 36,670,326	\$ 83,531
12/31/2000	46	645,474	27	201,656	458	4,190,676	11.8	9,150	40,970,172	89,455
12/31/2001	31	732,306 @	13	45,724	476	4,877,258	16.4	10,246	46,616,261	97,933
12/31/2002	34	464,636	18	126,234	492	5,215,660	6.9	10,601	49,634,941	100,884
12/31/2003	37	514,935	17	72,960	512	5,657,635	8.5	11,050	53,369,747	104,238
12/31/2004	95	2,073,773	16	133,099	591	7,598,309	34.3	12,857	74,362,328	125,825
12/31/2005	43	786,641	26	170,645	608	8,214,306	8.1	13,510	80,594,476	132,557
12/31/2006	39	844,464	24	579,276	623	8,479,494	3.2	13,611	85,797,333	137,716
12/31/2007	29	423,246	14	93,660	638	8,809,080	3.9	13,807	88,063,580	138,031
12/31/2008	47	725,060	26	204,104	659	9,330,036	5.9	14,158	92,573,860	140,476
12/31/2009	58	1,303,182	34	338,544	683	10,294,674	10.3	15,073	102,921,818	150,691
12/31/2010	46	1,166,301	24	210,133	705	11,250,842	9.3	15,959	112,893,161	160,132
12/31/2011	51	953,802	16	199,264	740	12,005,380	6.7	16,223	119,532,453	161,530
12/31/2012	58	1,114,368	12	127,382	786	12,992,366	8.2	16,530	126,736,278	161,242
12/31/2013	98	2,545,500	1	20,928	883	15,516,938	19.4	17,573	153,936,777	174,334
12/31/2014	35	826,083	2	10,254	916	16,332,767	5.3	17,831	159,912,340	174,577
12/31/2015	3	82,645	2	9,425	120	2,800,532	N/A	23,338	29,345,292	244,544
12/31/2016	4	96,939	2	34,334	122	2,863,137	2.2	23,468	30,422,314	249,363
12/31/2017	8	158,470	3	30,790	127	2,990,817	4.5	23,550	31,582,263	248,679
12/31/2018	9	220,054	3	80,738	133	3,130,133	4.7	23,535	32,555,730	244,780
12/31/2019	8	106,527	1	17,103	140	3,219,557	2.9	22,997	33,592,756	239,948
12/31/2020	15	289,786	2	22,473	153	3,486,870	8.3	22,790	36,247,014	236,909
12/31/2021	4	103,209	0	0	157	3,590,079	3.0	22,867	36,777,239	234,250
12/31/2022	10	219,263	3	25,923	164	3,783,419	5.4	23,070	39,543,189	241,117
12/31/2023	11	234,660	2	48,097	173	3,969,982	4.9	22,948	41,212,971	238,225

For Years Ended prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the Year Ended 2015, the results displayed are for BABH.

* Includes survivors of deceased retirees and annual allowance adjustments.

@ Includes one-time benefit increases.

Annual Allowances based on pre-change age amount for members with applicable pension benefit types.



Retirees and Beneficiaries December 31, 2023 Tabulated by Type of Pension Paid

Type of Pensions Being Paid	BABH
Regular	75
A - 10-Year Certain	16
B - 100% J & S	49
C - 50% J & S	15
Social Security Equated	
- Regular	4
- 10-Year Certain	1
- 100% J & S	2
- 50% J & S	1
Survivor	10
Total Pensions Being Paid	173

Retirees and Beneficiaries December 31, 2023 Tabulated by Attained Age*

Attained Age	BABH	
	No.	Annual Allowances
55 - 59	13	\$ 353,704
60 - 64	42	1,062,459
65 - 69	54	1,298,605
70 - 74	38	753,386
75 - 79	15	289,719
80 - 84	8	191,816
85 - 89	1	13,187
90 - 94	2	7,106
Totals	173	\$3,969,982

* Annual Allowances based on pre-change age amount for members with applicable pension benefit types.

Average Age at Retirement: 59.02 years
Average Age Now: 68.62 years

Inactive Members December 31, 2023

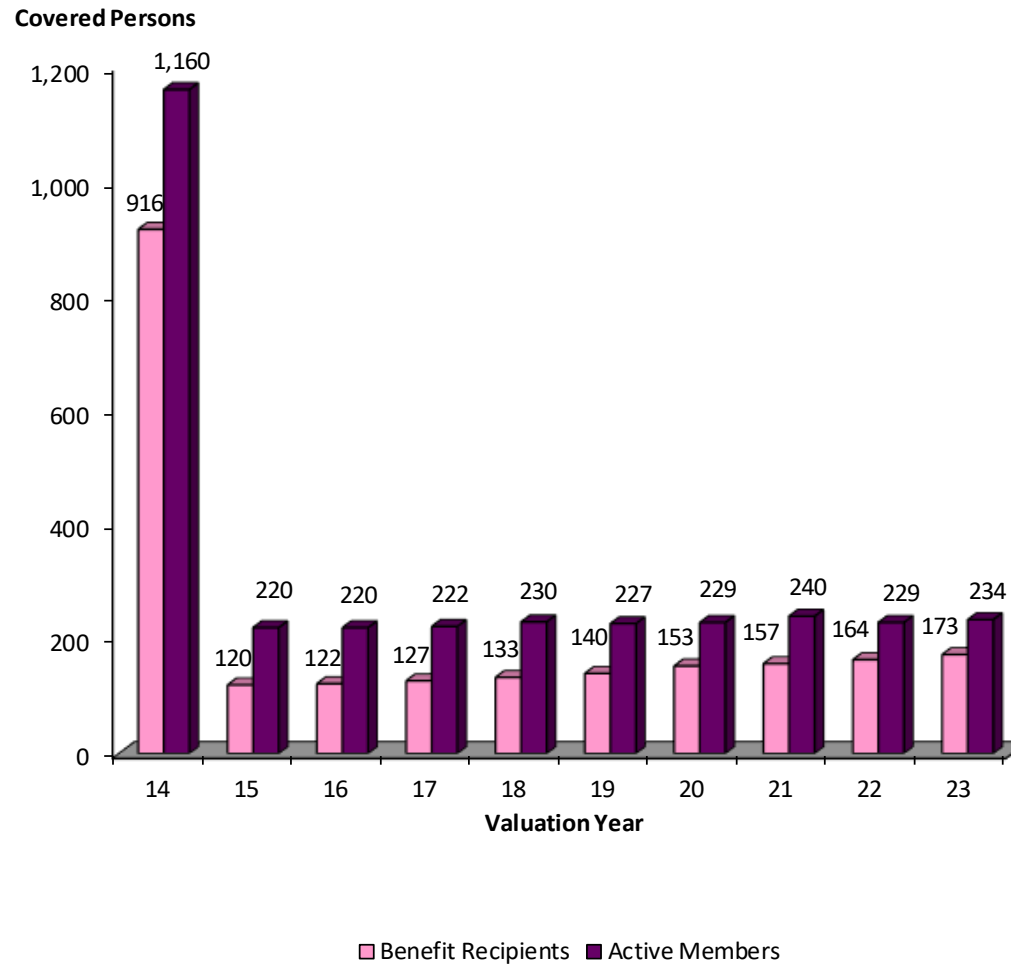
An inactive member is a person who has left County employment with entitlement to a retirement allowance after attaining voluntary retirement age. There were 38 inactive members as of December 31, 2023.

The schedule below is an age distribution of the inactive members.

Tabulated by Attained Age

Attained Age	No.	Estimated Deferred Allowances
30 - 34	1	\$ 9,203
35 - 39	2	20,487
40 - 44	8	91,069
45 - 49	5	60,114
50 - 54	11	159,960
55 - 59	9	132,072
60 - 64	1	30,900
65 - 69		
70 - 74	1	19,781
Total	38	\$523,586

Active Members and Benefit Recipients



For Valuation Years prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the 2015 Valuation Year, the results displayed are for BABH.

Active Members December 31, 2023 Comparative Schedule

Valuation		Active Members							Valuation		Average		
Date	General	DWS	Library	BABH	M.C.F.	Sheriff's	Road	Total	Payroll	Age	Service	Pay	
12/31/2004	427	41	72	208	303	76	76	1,203	\$43,550,999	44.3 yrs.	10.3 yrs.	\$36,202	
12/31/2005	429	41	74	211	293	75	74	1,197	43,104,046	44.7	10.5	36,010	
12/31/2006	412	41	30	205	292	75	67	1,122	42,024,045	45.0	11.1	37,455	
12/31/2007	415	39	39	216	288	74	67	1,138	44,687,752	45.3	11.3	39,269	
12/31/2008	410	38	42	235	305	75	66	1,171	46,482,897	45.3	11.4	39,695	
12/31/2009	407	39	45	253	297	76	58	1,175	47,244,573	45.1	11.3	40,208	
12/31/2010	389	37	45	261	295	74	54	1,155	47,090,560	45.4	11.4	40,771	
12/31/2011	378	38	44	274	298	77	56	1,165	48,583,176	45.3	11.2	41,702	
12/31/2012	365	39	42	276	319	75	56	1,172	48,571,798	45.0	11.1	41,444	
12/31/2013	351	36	41	219	350	76	56	1,129	44,535,708	44.1	10.6	39,447	
12/31/2014	365	40	36	220	361	79	59	1,160	46,494,417	43.8	10.4	40,081	
12/31/2015				220					10,331,351	43.8	8.6	46,961	
12/31/2016				220					10,608,566	44.1	9.0	48,221	
12/31/2017				222					10,806,001	44.0	8.7	48,676	
12/31/2018				230					11,226,851	43.7	8.7	48,812	
12/31/2019				227					11,186,972	44.0	9.0	49,282	
12/31/2020				229					11,666,794	43.9	8.8	50,947	
12/31/2021				240					13,318,905	43.8	8.6	55,495	
12/31/2022				229					13,227,205	43.8	8.7	57,761	
12/31/2023				234					13,941,626	43.6	8.7	59,580	

For Valuation Dates prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the 2015 Valuation Date, the results displayed are for BABH.



BABH Active Members December 31, 2023 by Age and Years of Service

Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
15-19	1							1	\$ 33,267
20-24	11							11	497,023
25-29	19							19	957,695
30-34	17	4	1					22	1,242,444
35-39	9	18	4					31	1,861,914
40-44	8	10	7	3	1			29	1,789,138
45-49	15	10	5	5	5	1		41	2,550,675
50-54	11	7	13	2	7	3		43	2,556,950
55-59	2	4	3	2	3	3	2	19	1,197,826
60	1	1			1	1		4	220,767
61		1		1				2	121,997
62	1		3	1				5	500,255
63	1		1					2	144,742
64	1		1		1			3	186,650
65			1					1	43,370
70					1			1	36,913
Totals	97	55	39	14	19	8	2	234	\$13,941,626

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 43.6 years

Service: 8.7 years

Annual Pay: \$59,580

SECTION D

ACTUARIAL COST METHODS AND ACTUARIAL ASSUMPTIONS

Valuation Methodology

Normal Cost/Accrued Liability. Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

- (i) The annual normal costs for each individual active member, payable from date of hire to the member's projected date of retirement, are sufficient to accumulate the actuarial present value of the member's anticipated benefit at the time of retirement; and
- (ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Amortization of Unfunded Actuarial Accrued Liabilities. Unfunded Actuarial Accrued Liabilities (UAAL) or asset surpluses were amortized as level percent-of-payroll contributions (principal and interest combined) as follows: If the liabilities exceed the assets (unfunded liabilities), the difference is amortized over a closed period of 19 years; if the assets exceed the liabilities (overfunding) the difference is amortized over an open period of 20 years. The amortization method was first adopted for the December 31, 2016 actuarial valuation. The UAAL payment reflects any payments expected to be made between the valuation date and the date contributions determined by this report are scheduled to begin. Active member payroll was assumed to increase 3.00% for the purpose of determining the level-percent contributions.

Asset valuation method. The actuarial value equals:

- (a) Actuarial value of assets from the previous valuation, plus
- (b) Employer and member contributions since the last valuation, minus
- (c) Benefit payments and refunds since the last valuation, plus
- (d) Estimated investment income at the assumed investment return, plus
- (e) Portion of gain/(loss) recognized in the current valuation.

For the above purpose, gain/(loss) is defined as the excess during the period of the investment return on the market value of assets over the expected investment income. Twenty percent of the difference is recognized over a five-year period in the actuarial value of assets. This method was first adopted for the December 31, 2003 actuarial valuation.

Actuarial Assumptions Used for the Valuation

The rationale for the assumptions used in this valuation is included in the five-year experience study ending December 31, 2021, issued August 31, 2023. All assumptions are expectations of future experience, not market measures.

Investment Return (net of investment expenses).

4.25% per year in excess of pay inflation. If pay inflation matches the assumption of 3.00%, this implies a 7.25% rate of return. This assumption was first adopted for the December 31, 2016 actuarial valuation and is used to equate the value of payments due at different points in time. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below for the Bay County Employees' Retirement System (in total). Actual increases in average active member pay for the Bay County Employees' Retirement System (in total) are also shown for comparative purposes.

	Year Ended December 31					5-Year Average*
	2023	2022	2021	2020	2019	
Rate of Investment Return	8.9 %	5.8 %	13.2 %	11.5 %	8.5 %	9.6 %
Average Increase in Pay [#]	<u>9.2</u>	<u>13.6</u>	<u>10.3</u>	<u>4.7</u>	<u>5.1</u>	<u>8.5</u>
Real Rate of Return	(0.3)	(7.8)	2.9	6.8	3.4	1.1

* *Compound rate of increase.*

Based on employees active during both years, for the Bay County Employees' Retirement System (in total).

The nominal rate of return was computed using the approximate formula $i = I$ divided by $1/2 (A + B - I)$, where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.

Please note that this analysis uses asset values and investment income as defined for the actuarial valuation which deals with market value changes on a gradual basis.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems.

Rates of price inflation are not specifically used for this valuation. However, a rate of price inflation of 2.50% would be consistent with other assumptions in this report. This assumption was first adopted for the December 31, 2016 actuarial valuation.

Pay Projections. These assumptions are used to project current pays to those upon which benefits will be based. In addition to the Merit and Longevity rates shown in the table, members are also assumed to receive a base increase of 3.00%.

Years of Service	Annual Rate of Pay Increase for Merit & Longevity
	BABH
1	3.00%
2	2.25%
3	1.50%
4	1.50%
5	0.75%
6+	0.75%

If the number of active members remains constant, the total active member payroll will increase by about the level of pay inflation (assumed to be 3.00% per year). This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities. The merit and longevity payroll growth assumptions were first adopted for the December 31, 2016 actuarial valuation. The base wage inflation assumption was first adopted for the December 31, 2022 actuarial valuation.

Changes actually experienced in pays have averaged as follows, for the Bay County Employees' Retirement System (in total):

Year Ended December 31					5-Year
2023	2022	2021	2020	2019	Average*
9.2%	13.6%	10.3%	4.7%	5.1%	8.5%

* Compound rate of increase.

Lump sum payments. Lump sum payments for unused sick leave and vacation were assumed to increase final average compensation by 4.0%. The lump sum payment assumption was first adopted for the December 31, 2022 actuarial valuation.

Mortality. The mortality rates utilized are based upon the Pub-2010 amount-weighted General tables, in conjunction with the MP-2021 projection scale on a fully generational basis. The mortality assumptions were first adopted for the December 31, 2022 actuarial valuation. The tables used were as follows:

- **Pre-Retirement:** Pub-2010 General Employee Mortality Tables, amount weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Healthy Post-Retirement:** Pub-2010 General Healthy Annuitant Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Disability Retirement:** Pub-2010 General Disabled Retiree Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

Sample Ages	Pre-Retirement Future Life Expectancy (Years) [^]		Healthy Post-Retirement Future Life Expectancy (Years) [^]		Disabled Retirement Future Life Expectancy (Years) [^]	
	Men	Women	Men	Women	Men	Women
	50	39.14	41.30	35.52	38.45	26.29
55	34.13	36.20	30.63	33.48	22.79	25.64
60	29.23	31.17	25.91	28.61	19.62	22.31
65	24.47	26.24	21.42	23.88	16.69	19.04
70	19.82	21.41	17.16	19.34	13.88	15.67
75	15.28	16.69	13.23	15.09	11.12	12.37
80	10.86	12.14	9.75	11.27	8.53	9.43

[^] Based on retirements in 2023. Retirements in future years will reflect improvements in life expectancy.

Administration Expenses. Non-investment administration expenses are assumed to average 0.45% of payroll annually. The administrative expenses assumption was first adopted for the December 31, 2022 actuarial valuation. This assumption was changed as a result of the experience study.

Active Member Group Size. The number of active members was assumed to remain constant. This assumption is unchanged from the previous valuation.

Rates of separation from active membership. The rates do not apply to members eligible to retire and do not include separation on account of death or disability. This assumption measures the probabilities of members remaining in employment. This assumption was first adopted for the December 31, 2022 actuarial valuation.

Sample Ages	Years of Service	% of Active Members Separating within Next Year
		BABH
ALL	0	19.80%
	1	11.88
	2	11.88
	3	10.56
	4	10.56
20	5 & Over	8.25
25		8.25
30		7.70
35		7.70
40		4.40
45		3.30
50		2.20
55		2.20
60		2.20

Rates of Disability. These rates represent the probabilities of active members becoming disabled. This assumption was first adopted for the December 31, 2016 actuarial valuation.

Percent Becoming Disabled within Next Year	
Sample Ages	BABH
20	0.07 %
25	0.07
30	0.07
35	0.07
40	0.19
45	0.25
50	0.46
55	0.84
60	1.33

We assumed that 85% of disabilities are non-duty related and 15% are duty related.

Rates of Retirement. These rates are used to measure the probabilities of an eligible member retiring during the next year.

Percent of Active Members Retiring within Next Year	
Retirement Ages	BABH
55	18 %
56	13
57	13
58	13
59	13
60	28
61	23
62	13
63	13
64	13
65	28
66	13
67	13
68	13
69	13
70	100

The following table shows the rates of retirement for the 55 & 8 and/or 55 & 10 Early Retirement provision:

55 & 8 and/or 55 & 10 Early Retirement	
Retirement Ages	BABH
55	5 %
56	5
57	5
58	5
59	5
60	5
61	5

The retirement assumptions were first adopted for the December 31, 2012 actuarial valuation for Early Retirement and the December 31, 2022 actuarial valuation for Normal Retirement.

Miscellaneous and Technical Assumptions

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Six months after the valuation date.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and death-in-service decrements do not operate during the first five years of service. Disability and withdrawal do not operate during retirement eligibility.
Normal Form of Benefit:	The assumed normal form of benefit is straight life form.
Loads:	Loads are included for lump sum payments for unused sick leave and vacation (see page D-3 for further details). For current retirees who elected a joint and survivor form of payment with a pop-up and retired prior to January 1, 2013 the liabilities are loaded 2% because the pop-up benefits are not provided in the data.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent-of-payroll shown in this report, and the actual payroll payable at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits.
Data Adjustment:	Payroll was annualized for new entrants. Newly reported active members who were reported without any annual pay were assumed to have pay equal to the average annualized pay of the remaining new actives within their respective group.
Eligible Domestic Relations Orders (EDROs):	In the event the Participant is active and the Alternate Payee has commenced benefits, the liability associated with the Alternate Payee has been netted from the respective group's gross liability.

SECTION E

SUPPLEMENTARY SCHEDULES

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)] / (c)
12/31/2014	\$282,166,070	\$271,995,030	\$ (10,171,040)	103.7 %	\$46,494,417	none
12/31/2015	46,894,673	48,624,039	1,729,366	96.4	10,331,351	16.74 %
12/31/2016 #	50,204,835	51,801,665	1,596,830	96.9	10,608,566	15.05
12/31/2017	54,095,330	53,481,066	(614,264)	101.1	10,806,001	none
12/31/2018	55,569,686	55,163,699	(405,987)	100.7	11,226,851	none
12/31/2019 *	58,295,324	56,661,941	(1,633,383)	102.9	11,186,972	none
12/31/2020	62,853,907	59,315,138	(3,538,769)	106.0	11,666,794	none
12/31/2021	68,557,354	62,324,221	(6,233,133)	110.0	13,318,905	none
12/31/2022 #	69,910,264	66,857,263	(3,053,001)	104.6	13,227,205	none
12/31/2023	73,118,552	68,227,393	(4,891,159)	107.2	13,941,626	none

For Actuarial Valuation Dates prior to 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the 2015 Actuarial Valuation Date, the results displayed are for BABH.

* *Plan amended.*

Certain assumptions or methods revised.

Actuarial Cost Method

Individual Entry Age Normal Cost

Amortization Method

Level percent-of-payroll

Amortization periods

19 years closed when BABH is underfunded (unfunded accrued liability is positive). 20 years open when BABH is overfunded (unfunded accrued liability is negative).

Asset Valuation Method

Market value with 5-year smoothing of gains and losses.

Principal Actuarial Assumptions

(last revised for the 12/31/2016 valuation):

- Net Investment Return	7.25%
- Projected Salary Increases	3.00% pay inflation plus merit and longevity
- Price Inflation	2.50%
- Cost-of-Living Adjustments	None

Schedule of Employer Contributions

Valuation Year Ended December 31	Calendar Year Ended December 31	Annual Required Contribution
2014	2016	\$ 2,535,295
2015	2017	990,514
2016	2018	1,048,375
2017	2019	867,441
2018	2020	917,980
2019	2021	797,845
2020	2022	672,867
2021	2023	592,086
2022	2024	815,302
2023	2025	491,050

For Valuation Years Ended prior to December 31, 2015, the results displayed are for the entire Retirement System (including BABH). Beginning with the Valuation Year Ended December 31, 2015, the results displayed are for BABH.

SECTION F

RISK DISCLOSURES

Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

Determination of the accrued liability, the employer contribution, and the funded rate requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

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 due to changing conditions; 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, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. **Investment Risk** – actual investment returns may differ from the expected returns;
2. **Asset/Liability Mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. **Contribution Risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. **Salary and Payroll Risk** – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. **Longevity Risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
6. **Other Demographic Risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The computed contribution rate shown on page B-2 may be considered as a minimum contribution rate that complies with the Board's funding policy. The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

Plan Maturity Measures

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Ratio of the market value of assets to total payroll	4.9	4.8	5.9	6.0	5.6	4.7	5.3
Ratio of actuarial accrued liability to payroll	4.9	5.1	4.7	5.1	5.1	4.9	4.9
Ratio of actives to retirees and beneficiaries	1.4	1.4	1.5	1.5	1.6	1.7	1.7
Ratio of net cash flow to market value of assets	-4.2%	-4.0%	-3.0%	-2.8%	-3.1%	-3.1%	-2.8%

Ratio of Market Value of Assets to Payroll

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 2.0 times the payroll, a return on assets 5% different than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

Ratio of Actuarial Accrued Liability to Payroll

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time.

Ratio of Actives to Retirees and Beneficiaries

A young plan with many active members and few retirees will have a high ratio of actives to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

Ratio of Net Cash Flow to Market Value of Assets

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

Additional Risk Assessment

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Low-Default-Risk Obligation Measure

Introduction

In December 2021, the Actuarial Standards Board (ASB) adopted a revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. The revised ASOP No. 4 requires the calculation and disclosure of a liability referred to by the ASOP as the “Low-Default-Risk Obligation Measure” (LDRM). The rationale that the ASB cited for the calculation and disclosure of the LDRM was included in the Transmittal Memorandum of ASOP No. 4 and is presented below (emphasis added):

The ASB believes that the calculation and disclosure of this measure provides appropriate, useful information for the intended user regarding the funded status of a pension plan. The calculation and disclosure of this additional measure **is not intended to suggest that this is the “right” liability measure** for a pension plan. However, the ASB does believe that **this additional disclosure provides a more complete assessment of a plan’s funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.**

Comparing the Accrued Liabilities and the LDRM

One of the fundamental financial objectives of the Bay County Employees’ Retirement System for Bay-Arenac Behavioral Health Authority is to finance each member’s retirement benefits over the period from the member’s date of hire until the member’s projected date of retirement (entry age actuarial cost method) as a level percentage of payroll. To fulfill this objective, the discount rate that is used to value the accrued liabilities of the Bay County Employees’ Retirement System for Bay-Arenac Behavioral Health Authority is set equal to the expected return on the System’s diversified portfolio of assets (referred to sometimes as the investment return assumption). For the Bay County Employees’ Retirement System for Bay-Arenac Behavioral Health Authority, the investment return assumption is 7.25%.

The LDRM is meant to approximately represent the lump sum cost to a plan to purchase low-default-risk fixed income securities whose resulting cash flows essentially replicate in timing and amount the benefits earned (or the costs accrued) as of the measurement date. The LDRM is very dependent upon market interest rates at the time of the LDRM measurement. The lower the market interest rates, the higher the LDRM, and vice versa. The LDRM results presented in this report are based on the entry age actuarial cost method and discount rates based upon the December 2023 Treasury Yield Curve Spot Rates (end of month). The 1-, 5-, 10- and 30-year rates follow: 4.96%, 4.06%, 3.94% and 4.15%. This measure may not be appropriate for assessing the need for or amount of future contributions. This measure may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligation.

The difference between the two measures (Valuation and LDRM) is one illustration of the savings the sponsor anticipates by taking on risk in a diversified portfolio.

Accrued Liabilities and LDRM

Valuation	LDRM
\$68,227,393	\$100,369,409