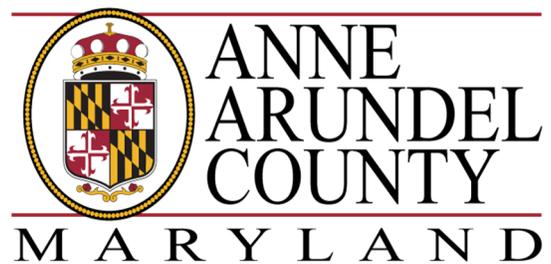


ANNE ARUNDEL RETIREE HEALTH BENEFITS TRUST

Annual Financial Report

For the year ended June 30, 2018

(With Independent Auditors' Report Thereon)



ANNE ARUNDEL RETIREE HEALTH BENEFITS TRUST
ANNUAL FINANCIAL REPORT

For the year ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Anne Arundel Retiree Health Benefits Trust
Annapolis, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Anne Arundel Retiree Health Benefits Trust (the OPEB Trust), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the OPEB Trust's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OPEB Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the OPEB Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the OPEB Trust's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OPEB Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the OPEB Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OPEB Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 28, 2018

**Anne Arundel Retiree Health Benefits Trust
Management Discussion and Analysis
For The Year Ended June 30, 2018**

As management of the Anne Arundel Retiree Health Benefits Trust (the OPEB Trust), we offer readers of the annual financial report this narrative overview and analysis of the financial activities of the OPEB Trust as of and for the fiscal year ended June 30, 2018. The OPEB Trust has fiduciary responsibility to administer multi-employer defined benefit plans for the purpose of providing retiree health benefits as “other post-employment benefit” for three entities: The Anne Arundel County Plan (County Plan), the Anne Arundel Community College Plan (College Plan), and the Public Library Association of Annapolis and Anne Arundel County, Inc. (Library Plan).

Financial Highlights

Total assets for the OPEB Trust exceeded total liabilities at June 30, 2018 by \$145.6 million. Net position of \$145.6 million is restricted and held in trust for retiree health benefits. Contributions to the OPEB Trust totaled \$75.9 comprised of \$69.2 million to the County Plan, \$4.7 million to the College, and \$2.0 million to the Library. Investment and other income was \$9.7 million for the year. Total deductions of \$41.8 million were \$37.5 million, \$2.7 million, and \$1.6 million for the County, College, and Library Plans respectively.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the OPEB Trust’s basic financial statements and notes to the financial statements. The financial statements include columns for the County Plan, the College Plan, and the Library Plan. The OPEB Trust’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. They include a Combined Statement of Fiduciary Net Position and a Combined Statement of Changes in Fiduciary Net Position.

The Combined Statement of Fiduciary Net Position shows the Trust’s assets less related liabilities at June 30, 2018. The difference between assets and liabilities are reported as plan net position. Changes in net position over time may be helpful in indicating and improving or deteriorating financial position.

The Combined Statement of Changes in Fiduciary Net Position presents additions and deductions to each Plan’s net position during the fiscal year. These financial statements present all underlying events, which give rise to the changes, regardless of the timing of the related cash flows. Items such as accrued interest receivable will produce changes in cash in a future fiscal period.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Notes are presented on pages 8 through 13 of the report.

Required Supplementary Information

The Required Supplementary Information section provides actuarial determined information about the Plans which includes valuation data prior to the establishment of the OPEB Trust.

Summary of Financial Information

The following Summaries of Net Position and Changes in Net Position present financial information in thousands for the OPEB Trust.

Summary of Assets, Liabilities, and Net Position by Plan

(in thousands)

As of June 30, 2018

	County Plan	College Plan	Library Plan	TOTAL
Investments and other assets	\$ 138,931.8	\$ 9,249.8	\$ 807.1	\$ 148,988.7
Liabilities	\$ 3,396.6	\$ 1.2	\$ 0.1	\$ 3,397.9
Net position held in trust	\$ 135,535.2	\$ 9,248.6	\$ 807.0	\$ 145,590.8

As of June 30, 2017

	County Plan	College Plan	Library Plan	TOTAL
Investments and other assets	\$ 97,146.5	\$ 6,710.2	\$ 360.7	\$ 104,217.4
Liabilities	\$ 2,456.1	\$ 3.1	\$ 0.2	\$ 2,459.4
Net position held in trust	\$ 94,690.4	\$ 6,707.1	\$ 360.5	\$ 101,758.0

The increase of \$43.8 million in net position held in Trust for the year ended June 30, 2018, is primarily due the increase in investments and other assets. Contributions of \$69.0 million and net investment income of \$9.7 million were in excess of \$34.9 million total deductions, which includes primarily insurance claims and premiums. This resulted in a change in net position as of June 30, 2018 of \$43.8 million compared with \$36.5 million as of June 30, 2017.

Summary of Changes in Net Position by Plan

(in thousands)

As of June 30, 2018

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>Total</u>
Additions:				
Contributions	\$ 62,289.1	\$ 4,733.3	\$ 2,020.2	\$ 69,042.6
Investment and other income	9,174.1	509.4	33.7	9,717.2
	<u>71,463.2</u>	<u>5,242.7</u>	<u>2,053.9</u>	<u>78,759.8</u>
Total additions				
Deductions:				
Benefits	29,710.4	2,698.3	1,607.2	34,015.9
Administrative expenses	908.0	2.9	0.2	911.1
	<u>30,618.4</u>	<u>2,701.2</u>	<u>1,607.4</u>	<u>34,927.0</u>
Total deductions				
Change in net assets	40,844.8	2,541.5	446.5	43,832.8
Net position held in trust, beginning of year	94,690.4	6,707.1	360.5	101,758.0
Net position held in trust, end of year	\$ <u>135,535.2</u>	\$ <u>9,248.6</u>	\$ <u>807.0</u>	\$ <u>145,590.8</u>

As of June 30, 2017

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>TOTAL</u>
Additions:				
Contributions	\$ 51,053.9	\$ 2,977.0	\$ 1,462.0	\$ 55,492.9
Investment and other income	11,580.0	819.7	46.8	12,446.5
	<u>62,633.9</u>	<u>3,796.7</u>	<u>1,508.8</u>	<u>67,939.4</u>
Total additions				
Deductions:				
Benefits	26,828.5	2,352.0	1,462.0	30,642.5
Administrative expenses	835.4	10.0	0.2	845.6
	<u>27,663.9</u>	<u>2,362.0</u>	<u>1,462.2</u>	<u>31,488.1</u>
Total deductions				
Change in net assets	34,970.0	1,434.7	46.6	36,451.3
Net position held in trust, beginning of year	59,720.4	5,272.4	313.9	65,306.7
Net position held in trust, end of year	\$ <u>94,690.4</u>	\$ <u>6,707.1</u>	\$ <u>360.5</u>	\$ <u>101,758.0</u>

Contributions year-over-year ended June 30, 2017 and 2018 increased by \$13.5 million primarily due to the increase in the County annual contribution of \$20.0 million in FY17 compared to \$29.0 million in FY18. The County made these contributions as part of a 5-year plan toward funding the accrued liability.

Net investment income decreased from \$12.5 million in FY17 to \$9.7 million in FY18. This decrease was primarily due to the 44.0% decrease in the net appreciation in the fair value of investments from \$9.3 million in FY17 to \$5.2 million in FY18. This was partially offset by a 43.1% increase in interest and dividends from \$3.2 million in FY17 to \$4.5 million in FY18.

Benefit deductions increased from \$30.6 million in FY17 to \$34.0 million in FY18 due to higher insurance claims and insurance premiums. Premium rates and membership increased in 2018. General and administrative expenses grew slightly from \$845.6 thousand in FY17 to \$911.0 thousand in FY18.

Request for Information

This discussion and analysis is designed to provide a general overview of the Anne Arundel Retiree Health Benefits Trust. Questions concerning any of the information provided in this annual financial report or requests for additional information should be addressed to the Anne Arundel County Office of Personnel, 2660 Riva Road, Annapolis, Maryland 21401.

**Anne Arundel Retiree Health Benefits Trust
Combined Statement of Fiduciary Net Position
June 30, 2018**

	<u>Total</u>
ASSETS	
Investments	
Short-term investments funds	\$ 6,676,840
Mutual funds	<u>139,782,442</u>
Total investments	146,459,282
Accounts receivable	<u>2,529,475</u>
Total assets	<u>\$ 148,988,757</u>
LIABILITIES	
Accrued liabilities and accounts payables	\$ 598,070
Due to Anne Arundel County Gov.	2,799,184
Unearned revenue	<u>666</u>
Total liabilities	<u>3,397,920</u>
Net position held in trust for other post employment benefits (Schedule of Net OPEB Liability presented on page 10)	
	<u>\$ 145,590,837</u>

Accompanying notes to the basic financial statements are an integral part of this statement.

Anne Arundel Retiree Health Benefits Trust
Combined Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018

	Total
ADDITIONS	
Contributions	
Employer	\$ 60,534,038
Member	1,314,013
Insurance subsidies and rebates	7,194,581
Total contributions	69,042,632
 Investment income	
Net appreciation in fair value of investments	5,208,524
Interest and dividends	4,529,565
Total investment income	9,738,089
Less investment expense	20,872
Net investment income	9,717,217
Total Additions	78,759,849
 DEDUCTIONS	
Insurance claims	24,464,707
Insurance premiums	9,551,219
General and administrative expense	911,028
Total Deductions	34,926,954
Net increase in plan net position	43,832,895
Net position held in trust, beginning of year	101,757,942
Net position held in trust, end of year	\$ 145,590,837

Accompanying notes to the basic financial statements are an integral part of this statement.

1 Description of the Plans

A General Information – The Anne Arundel Retiree Health Benefits Trust (the OPEB Trust) is a single-employer defined benefit health care plan that includes Anne Arundel County Government (County) and two component units of the County which are Anne Arundel Community College (College), and the Public Library Association of Annapolis and Anne Arundel County (Library). The Trust is governed by a Board of Trustees with a minimum membership of eight. The members include the County Chief Administrative Office, the County Controller, the County Personnel Officer, and the County Budget Officer in addition to representatives from each Plan appointed by the County Executive.

B Membership by Plan – Anne Arundel County retirees meeting criteria based upon years of service as defined in County Bill 85-13 are eligible for medical insurance and prescription coverage in retirement. The College provides health care benefits to retirees based on pension eligibility and years of service. The benefits provided, benefit levels, retiree contributions and employer contributions are governed by the College’s Board of Trustees and during the budgetary process. The Board of Trustees may amend or change the plan periodically. The Library, through its Health Benefits Pooling Agreement with the County, has agreed that its benefits and costs to the retirees will match the County Plan. The number of participants in the OPEB Trust as of March 1, 2017 follows. Data is based on actuarial valuations dated August 25, 2017. The actuarial valuations are completed every 2 years.

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>Total</u>
Employees with medical coverage	3,788	717	201	4,706
Deferred vested termination	285	-	-	285
Retirees	<u>2,526</u>	<u>205</u>	<u>143</u>	<u>2,874</u>
Total	<u><u>6,599</u></u>	<u><u>922</u></u>	<u><u>344</u></u>	<u><u>7,865</u></u>

C Employee and Employer Contributions – By Resolution, the County Council establishes the total premium to be charged for County retirees. The County has Health Benefits Pooling Agreements with the College and Library which establish premium amounts to cover medical expenses. The College and Library pay a 2 percent administration fee in addition to the established premium. Administrative costs related to the County’s claims processing as set by the Pooling Agreements are paid to the County Health Insurance Fund.

2 Summary of Significant Accounting Policies

A Basis of Accounting – The OPEB Trust’s financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Member contributions are recognized as revenue in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment has been made to provide the contributions. Benefits and rebates are recognized when earned and payable. Claims are paid by the County when due and subsequently reimbursed by the Trust for the County Plan. Pending reimbursements are reported as liabilities due to Anne Arundel County. The College and Library claims are paid from the Health Insurance Fund under the requirements of the Pooling Agreements.

B Investments – Investments are valued at fair value, which is determined using quoted market values. Assets held in trust are held in custodial accounts for which the custodian makes no investment decisions. In November 2015, the OPEB Trust’s Board of Trustees established an Investment Policy Statement (IPS) to set forth the Trustees’ investment objectives, policies, guidelines, monitoring and review procedures relating to the management and safekeeping of all assets of the OPEB Trust. The OPEB Trust’s assets may be invested in large capitalized domestic equities, international equities, emerging international equities, core fixed income, and diversified fixed income.

Policy allows use of mutual/commingled funds as investment vehicles. The following schedule displays the asset allocation targets in the IPS.

Asset Allocations by Investment Policy			
	Target Allocation	Minimum Allocation	Maximum Allocation
Large Cap U.S. Equities	33%	28%	38%
Int'l .Equities - Developed Markets	21%	16%	26%
Emrging Int'l, Equities	6%	0%	11%
Total Equity	60%	44%	75%
Core Fixed Income	20%	15%	25%
Diversified Fixed Income	20%	15%	25%
Total Fixed Income	40%	30%	50%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. As of 6/30/2018, the trust owned one debt mutual fund with an effective maturity of 9.1 years.

Custodial credit risk for investments is the risk that securities are uninsured, unregistered, and held by the counterparty, or by its trust department or agent, but not in the name of the OPEB Trust. As of June 30, 2018, there were no investments exposed to custodial credit risk. The OPEB Trust does not have a policy for custodial credit risk.

Concentration risk is the risk of loss attributed to the magnitude of the OPEB Trust's investment in a single issuer. As of June 30, 2018 there was no exposure to a single issuer greater than 5.0% of the OPEB Trust net position, excluding investment pools.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the OPEB Trust. Debt securities are rated by Nationally Recognized Statistical Rating Organizations to provide purchasers with an opinion of the capability and willingness of a borrower to re-pay its debt. The following table displays value and ratings for debt issues owned by the Trust as of June 30, 2018.

	Total Fair Value	Standard & Poor's Credit Ratings				
		AAA-A	BBB-B	CCC-C	C	NR
Mutual Funds	\$ 50,783,365	\$ -	\$ -	\$ -	\$ -	\$ 50,783,365
Short Term Investment Pool	6,676,840	-	-	-	-	6,676,840
Total Fixed Income	\$ 57,460,205	\$ -	\$ -	\$ -	\$ -	\$ 57,460,205

Risk and Uncertainties – The OPEB Trust invests in various investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the levels of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of plan net position available for benefits.

Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was approximately 8.0 percent for the County Plan, 6.4 percent for the College Plan, and 5.8 percent for the Library Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial valuations of the OPEB Trust involve estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to revisions as actual results are compared to past expectations and new estimates are made about the future.

3 Net OPEB Liability of the Trust

A *Net OPEB liability of the trust* – The components of the net OPEB liability of the Trust at June 30, 2018 are displayed on the following schedule.

Net OPEB Liability of the Trust				
(in thousands)				
As of June 30, 2018				
	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>TOTAL</u>
Total OPEB liability	\$ 696,318	\$ 47,228	\$ 24,838	\$ 768,384
Plan fiduciary net position	(135,535)	(9,249)	(807)	(145,591)
Net OPEB liability	<u>\$ 560,783</u>	<u>\$ 37,979</u>	<u>\$ 24,031</u>	<u>\$ 622,793</u>
Plan fiduciary net position as a percentage of the total OPEB liability	19.46%	19.58%	3.25%	
Actuarial assumptions	The total OPEB liability was determined by the GASB 74 Measurement Period Ending June 30, 2018 applied to all periods included in the measurement, unless otherwise specified.			
	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	
Inflation	2.40%	2.40%	2.40%	
Salary increases	3.00%	3.00%	3.00%	
Investment rate of return	6.38%	6.38%	6.37%	
Healthcare cost trend rates	5.70%	5.70%	5.70%	

B *Long-term expected real rate of return* – The long-term expected rate of return on OPEB 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 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 target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Equity	4.0%
International Equities	3.5%
Emerging Int'l Equities	2.8%
Core Fixed Income	2.7%
Emerging Market Debt	2.8%

C Discount rate – The discount rate used to determine the actuarial net liability varied by Plan. Based on assumptions of increasing contribution levels and normal costs for future hires, the County Plan is expected to never become insolvent. Consequently, the actuary determined the County’s liability using the expected rate of return on assets of 6.381 percent as the discount rate. The College’s liability using the expected rate of return on assets of 6.381 percent as the discount rate which increased from 3.72 percent in the prior year. Forecasts for the Library determined that the Plan would require calculation of a blended rate reflecting both the expected rate of return on assets and the bond rate of 3.62 percent. The discount rate used for the Library Plan is 6.366 percent which increased from 3.58 percent in the prior year.

D Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of each Plan based on each Plan’s discount rate, as well as what the 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 as of June 30, 2018.

	Discount Rate Sensitivity		
	Net OPEB liability (asset)		
	1.00% Decrease	Discount Rate	1.00% Increase
County Plan	5.38%	6.38%	7.38%
	\$ 635,329,395	\$ 560,782,563	\$ 438,225,104
College Plan	5.38%	6.38%	7.38%
	\$ 44,843,726	\$ 37,979,353	\$ 32,290,326
Library Plan	5.37%	6.37%	7.37%
	\$ 27,257,005	\$ 24,030,636	\$ 21,357,239

E Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate – The trend rate selected is based on an economic model developed by a health care economist for the Society of Actuaries. Future medical trend increases could vary significantly from the model. Model inputs will be updated periodically based on the best estimate of the economy at the time. Small changes in the model inputs can result in actuarial losses or gains of 5 to 15 percent of liabilities. The same trend rate is used for each Plan. The following presents the net OPEB liability for each Plan, as well as what the 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:

	Heathcare Trend Cost Sensitivity		
	Net OPEB liability (asset)		
	1.00% Decrease	Trend Rates	1.00% Increase
	2.90%	3.90%	4.90%
County Plan	\$ 430,293,212	\$ 560,782,563	\$ 646,565,877
College Plan	\$ 30,954,925	\$ 37,979,353	\$ 46,829,425
Library Plan	\$ 20,895,882	\$ 24,030,636	\$ 27,864,108

4 Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive OPEB Trust (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between employers and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued

liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used in the latest valuation are as follows:

<u>Schedule of Actuarial Methods and Assumptions</u>			
	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Closed, level percent of payroll	Closed, level percent of payroll	Closed, level percent of payroll
Amortization Period	22 years <i>(as of June 30, 2018)</i>	22 years <i>(as of June 30, 2018)</i>	22 years <i>(as of June 30, 2018)</i>
Asset valuation Method	Market value of Assets	Market value of Assets	Market value of Assets
Actuarial Assumptions			
Discount Rate	6.381% <i>Long-term expected return based on Trust assets</i>	6.381% <i>Long-term expected return based on Trust assets</i>	6.366% <i>Long-term expected return based on Trust assets</i>
Payroll Increase	3.00%	3.00%	3.00%
Medical Inflation Trend	see note below	see note below	see note below

Notes:

- 1) *The rate in 2018 is 5.7%. The rate in 2050 is 5.5% pre-Medicare and 4.8% post-Medicare. The ultimate rate is 5.1% pre-Medicare and 4.6% post-Medicare.*
- 2) *The Plan's actual benefit payments may be greater or lesser than the amounts shown, depending on the Plan's actual demographic experience, and claims experience.*
- 3) *The information above is from the actuarial valuation reports dated August 25, 2017 which used census valuation data as of March 1, 2017.*

5 Receivables and Payables

Accounts receivable for the County Plan includes rebates and subsidies earned but not yet received. Neither the College nor Library Plans have an accounts receivable balance. Accrued liabilities and accounts payable includes estimates of claims for the County Plan and shared expenses for all three Plans.

6 Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7 Fair Value Measurement

The OPEB Trust has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The OPEB Trust owns three publically traded and priced mutual funds with a total market value of \$99.3 million as of June 30, 2018. These are categorized

as Level 1 inputs and displayed by type in the following schedule. As of June 30, 2018, all short-term investments were in money market mutual funds which are not subject to the fair value measurement requirements.

Fair Value Hierarchy of Trust Investments

Assets at Fair Value June 30, 2018		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Investment Type	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
Mutual Funds				
Fixed Income	\$ 50,783,365	\$ 50,783,365	\$ -	\$ -
Domestic Equity	50,485,600	50,485,600	-	-
International Equity	38,513,477	38,513,477	-	-
Total Mutual Funds	\$ 139,782,442	\$ 139,782,442	\$ -	\$ -

Anne Arundel County Retiree Benefits Trust
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios - County Plan
For Years Ended June 30

Amounts in thousands

	2018	2017
Total OPEB liability		
Service cost	\$ 17,759	\$ 17,092
Interest	41,434	39,648
Changes of benefit terms	-	-
Differences between expected and actual experience	(884)	-
Changes of assumptions	-	-
Benefit payments	(23,539)	(33,075)
Net change in total OPEB liability	34,770	23,665
Total OPEB liability - beginning	661,548	637,883
Total OPEB liability - ending (a)	\$ 696,318	\$ 661,548
Plan fiduciary net position		
Contributions - employer	\$ 57,335	\$ 44,908
Contributions - retiree	-	6,246
Other	-	4,398
Net investment income	9,193	11,582
Benefit payments	(23,539)	(33,075)
Administrative expense	(39)	(894)
Net change in plan fiduciary net position	\$ 42,950	\$ 33,166
Plan fiduciary net position - beginning	92,887	59,720
Plan fiduciary net position - ending (b)	\$ 135,837	\$ 92,887
County's net OPEB liability - ending (a)-(b)	\$ 560,481	\$ 568,661
Fiduciary net position as a percentage of the total OPEB liability	19.51%	14.04%
Expected average remaining service years of all participants	6	6
Covered payroll	263,129	258,490
County's net OPEB liability as a percentage of covered payroll	213.01%	219.99%
Discount Rate	6.38%	6.38%

Notes to Schedule:

- 1 Source is actuarial data based on preliminary financials. The difference between this schedule and the final combined statement of changes in fiduciary net position on page 7 is considered immaterial.
- 2 This schedule is presented to illustrate the requirement to show information for 10 years. However, until 10-year trend is compiled, OPEB plans should present information for those years for which data is available.
- 3 There are no benefit changes reflected in the current schedule.

Anne Arundel County Retiree Benefits Trust
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios - College Plan
For Years Ended June 30

Amounts in thousands

	2018	2017
Total OPEB liability		
Service cost	\$ 3,083	\$ 3,590
Interest	2,390	2,022
Changes of benefit terms	-	-
Differences between expected and actual experience	204	-
Changes of assumptions	(21,741)	(6,971)
Benefit payments	(1,685)	(2,111)
Net change in total OPEB liability	(17,749)	(3,470)
Total OPEB liability - beginning	64,977	68,447
Total OPEB liability - ending (a)	<u>\$ 47,228</u>	<u>\$ 64,977</u>
Plan fiduciary net position		
Contributions - employer	\$ 3,720	\$ 1,946
Contributions - retiree	-	790
Other	-	-
Net investment income	510	820
Benefit payments	(1,685)	(2,111)
Administrative expense	(5)	(7)
Net change in plan fiduciary net position	\$ 2,540	\$ 1,438
Plan fiduciary net position - beginning	6,710	5,272
Plan fiduciary net position - ending (b)	<u>\$ 9,250</u>	<u>\$ 6,710</u>
College's net OPEB liability - ending (a)-(b)	<u>\$ 37,978</u>	<u>\$ 58,267</u>
Fiduciary net position as a percentage of the total OPEB liability	19.59%	10.33%
Expected average remaining service years of all participants	9	9
Covered payroll	\$ 61,103	\$ 61,257
College Plan's net OPEB liability as a percentage of covered payroll	62.15%	95.12%
Discount Rate	6.38%	3.72%

Notes to Schedule:

- 1 Source is actuarial data based on preliminary financials. The difference between this schedule and the final combined statement of changes in fiduciary net position on page 7 is considered immaterial.
- 2 This schedule is presented to illustrate the requirement to show information for 10 years. However, until 10-year trend is compiled, OPEB plans should present information for those years for which data is available.
- 3 There are no benefit changes reflected in the current schedule.
- 4 The discount rate was increased to 6.38% in 2018 from 3.72% in the prior year.

Anne Arundel County Retiree Benefits Trust
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios - Library Plan
For Years Ended June 30

Amounts in thousands

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 1,233	\$ 1,437
Interest	1,212	1,033
Changes of benefit terms	-	-
Differences between expected and actual experience	136	-
Changes of assumptions	(10,896)	(3,536)
Benefit payments	(1,286)	(1,462)
Net change in total OPEB liability	(9,601)	(2,528)
Total OPEB liability - beginning	34,439	36,967
Total OPEB liability - ending (a)	<u>\$ 24,838</u>	<u>\$ 34,439</u>
Plan fiduciary net position		
Contributions - employer	\$ 1,699	\$ 299
Contributions - retiree	-	292
Other	-	871
Net investment income	34	47
Benefit payments	(1,286)	(1,462)
Administrative expense	(1)	-
Net change in plan fiduciary net position	\$ 446	\$ 47
Plan fiduciary net position - beginning	361	314
Plan fiduciary net position - ending (b)	<u>\$ 807</u>	<u>\$ 361</u>
Library's net OPEB liability - ending (a)-(b)	<u>\$ 24,031</u>	<u>\$ 34,078</u>
Library fiduciary net position as a percentage of the total OPEB liability	3.25%	1.05%
Expected average remaining service years of all participants	6	6
Covered payroll	\$ 13,203	\$ 12,691
The Library Plan's net OPEB liability as a percentage of covered payroll	182.01%	268.51%
Discount Rate	6.37%	3.58%

Notes to Schedule:

- 1 Source is actuarial data based on preliminary financials. The difference between this schedule and the final combined statement of changes in fiduciary net position on page 7 is considered immaterial.
- 2 This schedule is presented to illustrate the requirement to show information for 10 years. However, until 10-year trend is compiled, OPEB plans should present information for those years for which data is available.
- 3 There are no benefit changes reflected in the current schedule.
- 4 The discount rate was increased to 6.37% in 2018 from 3.58% in the prior year.

Anne Arundel Retiree Health Benefits Trust
Required Supplementary Information
June 30, 2018

The following schedule reflects both “Pay-As-You-Go” (PAYGO) expenses plus additional employer contributions over and above the PAYGO amounts.

Schedule of Employer Contributions

Amounts in thousands

Year Ended June 30	<i>County Plan</i>		<i>College Plan</i>		<i>Library Plan</i>	
	Annual Required	Percentage Contributed	Annual Required	Percentage Contributed	Annual Required	Percentage Contributed
	Contribution		Contribution		Contribution	
2018	48,734	117.6%	3,881	95.9%	2,008	84.6%
2017	77,516	57.9%	5,840	35.8%	2,860	40.9%
2016	73,689	59.8%	5,542	87.5%	2,692	10.8%

Schedule of Investment Returns by Plan

For Year Ended June 30

Annual Money-Weighted Rate of Return, Net of
Investment Expense

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>
2018	8.0%	6.4%	5.8%
2017	14.4%	15.3%	15.3%

Notes to this schedule

- 1 This schedule is presented to illustrate the requirement to show information for 10 years. However, until 10-year trend is compiled, OPEB plans should present information for those years for which data is available.
- 2 Investments were initiated March 1, 2016

Anne Arundel County Retiree Benefits Trust
 Required Supplementary Information
 Schedule of Contributions - County Plan
 For Years Ended June 30

Amounts in thousands

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 48,734	77,516	73,689	75,695	71,324	109,939	102,777	90,626	68,877	81,157
Contributions in relation to the actuarially determined contribution	57,334	44,908	44,097	40,795	34,683	-	-	-	-	-
Contribution deficiency (excess)	\$ (8,600)	32,608	29,592	34,900	36,641	109,939	102,777	90,626	68,877	81,157
Covered payroll	263,129	258,490	255,191	247,008	239,173	213,899	215,209	227,115	233,947	233,637
Contributions as a percentage of covered payroll	21.79%	17.37%	17.28%	16.52%	14.50%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates were calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

The report was dated August 25, 2017 for fiscal years 2017 and 2018 based on March 1, 2017 census data.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit: Prorated to assumed benefit commencement/retirement date.
Amortization method	Liabilities are amortized over a closed 25-year period as a level percentage of payroll for fiscal year 2015.
Amortization period	22 years for FYE June 30, 2018.
Asset valuation method	Market value of assets.
Inflation	2.40%
Healthcare cost trend rates	The rate in 2018 was 5.7 percent. The rates vary significantly throughout the projections. The rate in 2050 is 5.5 percent pre-Medicare and 4.8 percent post-Medicare. The ultimate 2060 rate is 5.1 percent pre-Medicare and 4.6 percent post-Medicare.
Salary increases	3.00%
Investment rate of return	7.50% The long-term expected return on assets was used to derive the blended discount rate of 4.75 percent.
Decrement assumptions	The retirement decrement is assumed to commence once a participant reaches earliest retirement eligibility and vary by employee type and years of service.
Mortality	(1) Healthy uses fully generational RP-2000 Blue Collar Mortality Table for males and females projected using Scale AA. Pre-termination mortality uses 60 percent of these rates. (2) Disabled - General County employees uses Fully generational RP-2000 Blue Collar Mortality Table for males and females using Scale AA. The base qx's are set forward nine years. (3) Disabled - Uniformed services employees (Police, Firefighters, and Correctional facilities) uses fully generational RP-2000 Blue Collar Mortality Table for males and females using Scale AA. The base qx's are set forward five years.

Anne Arundel County Retiree Benefits Trust
 Required Supplementary Information
 Schedule of Contributions - College Plan
 For Years Ended June 30

Amounts in thousands

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 3,881	5,840	5,542	5,188	4,870	5,857	5,468	4,765	3,874	5,666
Contributions in relation to the actuarially determined contribution	3,720	2,088	4,850	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ 161	3,752	692	5,188	4,870	5,857	5,468	4,765	3,874	5,666
Covered payroll	61,103	61,257	61,643	60,962	57,079	54,043	54,728	53,957	53,478	53,115
Contributions as a percentage of covered payroll	6.09%	3.41%	7.87%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

Valuation date

Actuarially determined contribution rates were calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

The report was dated August 25, 2017 for fiscal years 2017 and 2018 based on March 1, 2017 census data.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit: Prorated to assumed benefit commencement/retirement date.
Amortization method	Closed, level percent of payroll.
Amortization period	22 years for FYE June 30, 2018.
Asset valuation method	Market value of assets.
Inflation	2.40%
Healthcare cost trend rates	The rate in 2018 was 5.7 percent. The rates vary significantly throughout the projections. The rate in 2050 is 5.5 percent pre-Medicare and 4.8 percent post-Medicare. The ultimate 2060 rate is 5.1 percent pre-Medicare and 4.6 percent post-Medicare.
Salary increases	3.00%
Investment rate of return	n/a
Decrement assumptions	Decrement assumptions for retirement, termination, and disability were based on those used for the State Retirement and Pension System of Maryland because Community College employees participate in the Maryland State Pension System.
Mortality	(1) Healthy uses RP-2000 Combined Mortality Table (sex distinct) using fully generational with Scale AA. (2) Disabled uses Combined Mortality Table (sex distinct) using fully generational with Scale AA. The base qx's are set forward three years;

Anne Arundel County Retiree Benefits Trust
 Required Supplementary Information
 Schedule of Contributions - Library Plan
 For Years Ended June 30

Amounts in thousands

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 2,008	2,860	2,692	2,712	2,568	3,669	3,439	3,260	2,507	3,090
Contributions in relation to the actuarially determined contribution	1,699	1,170	291	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ 309	1,690	2,401	2,712	2,568	3,669	3,439	3,260	2,507	3,090
Covered payroll	13,203	12,691	12,494	12,015	11,109	10,100	9,920	9,977	10,683	11,303
Contributions as a percentage of covered payroll	12.87%	9.22%	2.33%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

Valuation date

Actuarially determined contribution rates were calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

The report was dated August 25, 2017 for fiscal years 2017 and 2018 based on March 1, 2017 census data.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Projected Unit Credit: Prorated to assumed benefit commencement/retirement date.

Amortization method Closed, level percent of payroll.

Amortization period 22 years for FYE June 30, 2018.

Asset valuation method Market value of assets.

Inflation 2.40%

Healthcare cost trend rates The rate in 2018 was 5.7 percent. The rates vary significantly throughout the projections. The rate in 2050 is 5.5 percent pre-Medicare and 4.8 percent post-Medicare. The ultimate 2060 rate is 4.0 percent pre-Medicare and 3.9 percent post-Medicare.

Salary increases 3.00%

Investment rate of return n/a

Decrement assumptions. The retirement decrement is assumed to commence once a participant reaches earliest retirement eligibility and vary by employee type and years of service.

Mortality (1) Healthy uses fully generational RP-2000 Blue Collar Mortality Table for males and females projected using Scale AA.

Pre-termination mortality uses 60 percent of these rates.

(2) Disabled uses Fully generational RP-2000 Blue Collar Mortality Table for males and females using Scale AA.

The base qx's are set forward nine years.

Information about each Plan is presented herewith as required supplementary information. This information is intended to help users assess the OPEB Trust's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other OPEB plans.

1 Changes in Actuarial Methods and Assumptions

Since the prior actuarial valuations dated March 10, 2015, the discount rate for the County Plan increased from 4.75 percent to 7.50 percent due to the implementation and funding of the Trust. The retirement decrement for detention/sheriff category 1, with 20 or more years of service, was updated to match the retirement decrement used to value the Anne Arundel County Detention Officers' and Deputy Sheriffs' Retirement Plan. The discount rate for the College and Library Plans was increased from 4.00 percent to 7.50 percent.

Future medical care cost increase rates are unpredictable and could be volatile. They will depend upon the economy, future health care delivery systems and emerging technologies. The trend rate selected is based on an economic model developed by a health care economist for the Society of Actuaries. Future medical trend increase could vary significantly from the model. Model inputs will be updated periodically based on the best estimate of the economy at that time. Small changes in the model inputs can result in actuarial losses or gains of 5 to 15 percent of liabilities.

Anne Arundel Retiree Health Benefits Trust
Combined Statement of Fiduciary Net Position
June 30, 2018

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>Total</u>
ASSETS				
Investments				
Short-term investments funds	\$ 6,241,201	\$ 16,367	\$ 419,272	\$ 6,676,840
Mutual funds	130,162,425	9,232,957	387,060	139,782,442
Total investments	<u>136,403,626</u>	<u>9,249,324</u>	<u>806,332</u>	<u>146,459,282</u>
Accounts receivable	<u>2,528,209</u>	<u>483</u>	<u>783</u>	<u>2,529,475</u>
Total assets	<u>\$ 138,931,835</u>	<u>\$ 9,249,807</u>	<u>\$ 807,115</u>	<u>\$ 148,988,757</u>
LIABILITIES				
Accrued liabilities and accounts payables	\$ 596,823	\$ 1,183	\$ 64	\$ 598,070
Due to Anne Arundel County Gov.	2,799,132	49	3	2,799,184
Unearned revenue	<u>666</u>	<u>-</u>	<u>-</u>	<u>666</u>
Total liabilities	<u>3,396,621</u>	<u>1,232</u>	<u>67</u>	<u>3,397,920</u>
Net position held in trust for other post employment benefits (Schedule of Net OPEB Liability presented on page 10)				
	<u>\$ 135,535,214</u>	<u>\$ 9,248,575</u>	<u>\$ 807,048</u>	<u>\$ 145,590,837</u>

Accompanying notes to the basic financial statements are an integral part of this statement.

Anne Arundel Retiree Health Benefits Trust
Combined Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018

	<u>County Plan</u>	<u>College Plan</u>	<u>Library Plan</u>	<u>Total</u>
ADDITIONS				
Contributions				
Employer	\$ 55,094,533	\$ 3,740,390	\$ 1,699,115	\$ 60,534,038
Member	-	992,950	321,063	1,314,013
Insurance subsidies and rebates	<u>7,194,581</u>	<u>-</u>	<u>-</u>	<u>7,194,581</u>
Total contributions	<u>62,289,114</u>	<u>4,733,340</u>	<u>2,020,178</u>	<u>69,042,632</u>
Investment income				
Net appreciation in fair value of investments	4,934,176	258,622	15,726	5,208,524
Interest and dividends	<u>4,259,362</u>	<u>252,153</u>	<u>18,050</u>	<u>4,529,565</u>
Total investment income	9,193,538	510,775	33,776	9,738,089
Less investment expense	<u>19,455</u>	<u>1,344</u>	<u>73</u>	<u>20,872</u>
Net investment income	<u>9,174,083</u>	<u>509,431</u>	<u>33,703</u>	<u>9,717,217</u>
Total Additions	<u>71,463,197</u>	<u>5,242,771</u>	<u>2,053,881</u>	<u>78,759,849</u>
DEDUCTIONS				
Insurance claims	24,464,707	-	-	24,464,707
Insurance premiums	5,245,700	2,698,340	1,607,179	9,551,219
General and administrative expense	<u>907,954</u>	<u>2,916</u>	<u>158</u>	<u>911,028</u>
Total Deductions	<u>30,618,361</u>	<u>2,701,256</u>	<u>1,607,337</u>	<u>34,926,954</u>
Net increase in plan net position	40,844,836	2,541,515	446,544	43,832,895
Net position held in trust, beginning of year	<u>94,690,378</u>	<u>6,707,060</u>	<u>360,504</u>	<u>101,757,942</u>
Net position held in trust, end of year	<u>\$ 135,535,214</u>	<u>\$ 9,248,575</u>	<u>\$ 807,048</u>	<u>\$ 145,590,837</u>

Accompanying notes to the basic financial statements are an integral part of this statement.