Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Financial Report

With Required Supplementary Information

As of and for the Years Ended June 30, 2020 and 2019

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Contents

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council,
and Commissioners of the Board of Water and Light
Post-Retirement Benefit Plan and Trust for Eligible
Employees of Lansing Board of Water and Light
City of Lansing, Michigan

We have audited the accompanying financial statements of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary position of the Plan as of June 30, 2020 and 2019, and the respective changes in fiduciary position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 2, 2020

Using this Annual Report

The annual report consists of two parts: (1) Management's Discussion and Analysis (this section) and (2) the financial statements. The financial statements include notes that explain information in the statements and provide more detail.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2020	2019	2018
Assets held in trust:			
Cash and money market trust funds	$ 578,216	$ 3,437,276	$ 1,985,712
Fixed income securities	283	20,108,406	34,748,141
U.S. government obligations	-	18,994,138	26,527,961
Equities	85,193,786	67,168,552	48,418,160
Mutual funds	72,136,937	75,437,370	72,109,667
Common Collective	40,856,781	9,825,815	-
Interest and dividend receivable	26,604	261,067	404,369
Trade Receivable - Due from Broker	13,252	1,539	-
Total plan assets	**$ 198,805,859**	**$ 195,234,163**	**$ 184,194,010**
Liabilities			
Trade payable - Due to Broker	$ 1,057	$ 75,586	$ 154,385
Net Position Restricted for Pensions	**$ 198,804,802**	**$ 195,158,577**	**$ 184,039,625**
Changes in net position:			
Net investment income	$ 4,158,326	$ 11,687,552	$ 11,038,903
Employer contributions	9,156,565	9,277,538	10,395,327
Retiree benefits paid	(9,156,565)	(9,277,538)	(10,395,327)
Administrative Fees	(512,101)	(568,600)	(634,334)
Net change in net position	**$ 3,646,225**	**$ 11,118,952**	**$ 10,404,569**

Investment Results

The fiscal year ended June 30, 2020 saw a net investment income of $4.16 million. We believe this performance is consistent with the experience of similarly situated employee benefit funds.

The Board of Water and Light - City of Lansing, Michigan's ("BWL") actuarially determined contribution (ADC) as determined by the BWL's actuary was $0 in fiscal year 2020. Therefore, no employer contributions were required.

The discount rate was 7.5 percent in fiscal year 2019 and 7.0 percent in fiscal year 2020.

Investment Objectives and Asset Allocation

The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), the BWL has considered the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance.

The investment of assets is intended to result in moderate, long-term capital appreciation through moderate risk-taking. The Plan's overall investment objective is to earn an average, annual return of 7.0% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

Consistent with the advice of its investment advisor, the BWL has selected the following target asset allocation strategy:

Asset Class	Target Asset Allocation
Core bonds	15%
Multi-sector	5%
Liquid absolute return	5%
U.S. large cap equity	30%
U.S. small cap equity	10%
Non-U.S. equity	20%
Core real estate	8%
Value add RE	7%
Total	100%

Future Events

The BWL intends to continue fund its actuarially determined contributions (ADC) annually.

Contacting the Plan's Management

The financial report is intended to provide a general overview of the Plan's finances and to demonstrate accountability for the funds it administers. Questions about this report should be submitted to Lansing Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Statement of Fiduciary Net Position

	As of June 30	
	2020	2019
Assets		
Investments - fair value:		
Cash and money market trust funds	$ 578,216	$ 3,437,276
Fixed income securities	283	20,108,406
U.S. government obligations	-	18,994,138
Equities	85,193,786	67,168,552
Mutual funds	72,136,937	75,437,370
Common collective funds	40,856,781	9,825,815
Total investments at fair value	198,766,003	194,971,557
Investment interest and dividend receivable	26,604	261,067
Trade receivable - due from broker	13,252	1,539
Total assets	198,805,859	195,234,163
Liabilities		
Trade payable - due to broker	1,057	75,586
Net position restricted for retiree benefits	**$ 198,804,802**	**$ 195,158,577**

Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light

Statement of Changes in Fiduciary Net Position

	For the Year Ended June 30	
	2020	2019
Additions		
Investment income:		
Net appreciation in fair value of investments	$ 1,326,808	$ 7,052,500
Interest and dividend income	2,831,518	4,635,052
Total investment income	4,158,326	11,687,552
Employer contributions	9,156,565	9,277,538
Total additions	13,314,891	20,965,090
Deductions		
Retiree benefits paid	9,156,565	9,277,538
Administrative expenses	512,101	568,600
Total deductions	9,668,666	9,846,138
Net Increase in Net Position	3,646,225	11,118,952
Net Position Restricted for Retiree Benefits		
Beginning of year	195,158,577	184,039,625
End of year	**$ 198,804,802**	**$ 195,158,577**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Water and Light - City of Lansing, Michigan ("BWL") sponsors the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light ("Plan"), which is a single-employer defined benefit healthcare plan. The Plan was established on October 20, 1999, effective as of July 1, 1999, for the purpose of accumulating assets to fund retiree healthcare insurance costs in future years.

Accounting and Reporting Principles

The Plan follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Basis of Accounting

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Employer contributions to the Plan are recognized when due pursuant to legal requirements.

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Report Presentation

This report includes the fund-based statements of the Plan.

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

Purchases and sales of investments are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

Note 1 - Summary of Significant Accounting Policies (Continued)

<u>Report Presentation (Continued)</u>

Expenses – Substantially all Plan expenses are paid by the Plan.

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 at the date of the financial statements. Actual results could differ from those estimates.

Note 2 - Description of the Plan

The following description of the Plan, a trust fund of the BWL, provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General – The Plan was established on October 20, 1999, effective as of July 1, 1999, to constitute a voluntary employee beneficiary association (VEBA) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The Plan was formed for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years.

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. The City Charter grants the authority to establish and amend the benefit terms to BWL. Substantially all of the BWL's employees may become eligible for insurance benefits under the Plan if they reach normal retirement age while working for the BWL. There were 754 participants eligible to receive benefits at June 30, 2020 and 745 participants eligible at June 30, 2019.

Note 2 - Description of the Plan (Continued)

Benefits - Benefits shall not be paid from this Plan to participants or their beneficiaries during a plan year in which there has been a "qualified transfer" pursuant to Internal Revenue Code Section 420(e)(1)(8) from the Lansing Board of Water and Light Defined Benefit Plan for the Employees' Pensions, except that once the "qualified transfer" has been exhausted for the purpose of paying qualified current retiree health liabilities, benefit payments may be made under this Plan consistent with Internal Revenue Code Section 420(e)(1)(B). After "qualified transfers" have been exhausted, benefits paid under this Plan shall be those benefits described in the Plan document of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Trustees - Each voting member of the BWL Board of Commissioners is a Trustee during the term of office as a commissioner. The Trustees have appointed Fifth Third Bank as custodian of the Plan's assets.

Contributions - Section 5-203 of the City Charter grants the authority to establish and amend the contribution requirement of the City and Plan members to BWL. The retiree benefits are paid by BWL's general cash flow to the third party administrators who process participant claims. These payments represent contributions to the Plan. Employer contributions in the statement of changes in net position are equal to the retiree benefits paid because the actuarially determined contribution (ADC) for the year ended June 30, 2020 was less than the pay-as-you-go amount. During the years ended June 30, 2020 and 2019, BWL incurred $9,165,565 and $9,277,538 in benefit payments, respectively. The BWL may make additional contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the Trustees pursuant to the terms of the Plan agreement. Additional contributions are only made to the Plan if the ADC is more than the pay-as-you-go amount. No employee contributions are allowed under this Plan. Contributions are recognized when due and when the amount to be contributed is committed by the BWL. For the years ended June 30, 2020 and 2019, the contribution rates of the employers were 15.7 percent and 16.3 percent of covered-employee payroll, respectively.

Note 2 – Description of the Plan (Continued)

Participation – Participation in this Plan is determined in accordance with the terms of the Post-Retirement Benefit Plan and Trust for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2020, there were 676 active participants (not eligible to receive benefits), 75 disabled participants, 532 retired participants, and 147 surviving spouses participating in the Plan. At June 30, 2019, there were 690 active participants (not eligible to receive benefits), 78 disabled participants, 523 retired participants, and 144 surviving spouses participating in the Plan.

Vesting – Benefits become payable in accordance with the terms of the Post-Retirement Benefit Plan and Trust for Eligible Employees of Lansing Board of Water and Light. At no time will benefits of the Plan be vested. The BWL may reduce or eliminate any or all plan benefits at any time, subject to the requirements of any collective bargaining agreement.

Termination – In the event of Plan termination, all Plan assets shall be used to purchase additional eligible benefits in accordance with the terms of the Plan agreement. In the event of dissolution, merger, consolidation, or reorganization of the BWL, the Plan shall terminate and liquidate in a manner consistent with the Plan agreement unless the Plan is continued by a successor to the BWL.

Note 3 - Cash, Investments, and Fair Disclosure

The Plan is authorized through Public Act 149 of 1999 to invest in accordance with Public Act 314. Public Act 314 of 1965, as amended, allows the Plan to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan’s deposits and investment policies are in accordance with PA 196 of 1997 and have authorized the investments according to Michigan PA 314 of 1965, as amended.

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

The Plan's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions must meet minimum criteria to offer adequate safety to the Plan. The Plan evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories. The Plan does not have any deposits exposed to custodial credit risk.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year-end, all investments of the Plan were held in the name of the Plan and are therefore not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At June 30, 2020, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Fixed income securities	283	20.3
Money market trust funds	578,216	Less than 1 year
Portfolio weighted average maturity	-	20.3

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

At June 30, 2019 the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	$ 18,994,138	12.80 years
Fixed income securities	20,108,406	11.48 years
Money market trust funds	3,437,276	Less than 1 year
Portfolio weighted average maturity	-	12.12 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of June 30, 2020, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Fixed income securities	283	AA	S&P
Money market trust funds	578,216	Not rated	Not rated

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

As of June 30, 2019, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations – implicitly guaranteed	$ 7,711,966	AA+	S&P
U.S. government obligations – implicitly guaranteed	367,684	AA	S&P
Fixed income securities	2,623,158	AAA	S&P
Fixed income securities	6,057,705	AA+	S&P
Fixed income securities	1,078,532	AA	S&P
Fixed income securities	422,260	AA–	S&P
Fixed income securities	773,675	A+	S&P
Fixed income securities	1,637,385	A	S&P
Fixed income securities	2,059,561	A–	S&P
Fixed income securities	2,972,577	BBB+	S&P
Fixed income securities	1,621,369	BBB	S&P
Fixed income securities	859,092	BBB–	S&P
Fixed income securities	3,092	B+	S&P
Money market trust funds	3,437,276	Not rated	Not rated

Note 4 - Tax Status

The Plan is exempt under Internal Revenue Code Section 501(c)(9) and received an exemption letter as of February 9, 2000. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan.

Note 5 – Plan Investments - Policy and Rate of Return

BWL's policy in regard to the allocation of invested assets is established and may be amended by the BWL Board by a majority vote of its members. It is the policy of the BWL Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy as of June 30, 2020 and 2019:

Asset Class	2020 Target Allocation	2019 Target Allocation
Core bonds	15.00%	15.00%
Multi-sector	5.00%	5.00%
Liquid absolute return	5.00%	5.00%
U.S. large cap equity	30.00%	30.00%
U.S. small cap equity	10.00%	10.00%
Non-U.S. equity	20.00%	20.00%
Core real estate	8.00%	8.00%
Value add RE	7.00%	7.00%

Rate of Return – For the years ended June 30, 2020 and 2019 the annual money-weighted rate of return on investments, net of investment expense, was 2.13% and 6.36%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Net OPEB Liability (Asset) of BWL

Net OPEB Liability (Asset) of BWL –The components of the net OPEB liability (asset) for BWL at June 30, 2020 and 2019 were as follows:

	June 30, 2020	June 30, 2019
Total OPEB Liability	$ 154,602,686	$ 148,549,677
Plan fiduciary net position	(198,804,802)	(195,158,575)
BWL's net OPEB liability (asset)	$ (44,202,116)	$ (46,608,898)
Plan fiduciary net position as a percentage of the total OPEB Liability (asset)	128.59%	131.38%

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit / productivity increases
Long-term expected Rate of Return	7.0%
Healthcare cost trend rates	8.25% for 2020, decreasing 0.25% per year to an ultimate rate of 4.50% in 2035 and later years

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Payroll Growth	9.3% growth at age 25 and decreases to 6.4% for ages 60+. This percentage includes general wage inflation and merit / productivity increases
Long-term expected Rate of Return	7.5%
Healthcare cost trend rates	8.50% for 2019, decreasing 0.25% per year to an ultimate rate of 4.50% in 2035 and later years

For the June 30, 2020 and 2019 valuation, mortality rates were based on the PUBH-2010 General Mortality Table projected generationally using MP-2019 scale and MP-2018 scale, respectively.

Best actuarial practices call for a periodic assumption review and BWL had completed an experience study in 2017. At that time, Nyhart recommended BWL to complete another experience study prior to the fiscal year ending June 30, 2022 valuation.

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

For the June 30, 2020 valuation, the long-term expected rate of return is 7.0%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return 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, 2020 are as follows:

Asset Class	Long-Term Expected Real Rate of Return
Core bonds	2.60%
Multi-sector	3.43%
Liquid absolute return	3.25%
U.S. large cap equity	7.14%
U.S. small cap equity	8.43%
Non-U.S. equity	8.37%
Core real estate	6.73%
Value add RE	8.23%

For the June 30, 2019 valuation, the long-term expected rate of return is 7.50%. The rate was determined using a building-block method where expected future real rates of return are developed for each major asset class. These expected future real rates of return 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, 2019 are as follows:

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

Asset Class	Long-Term Expected Real Rate of Return
Core bonds	2.62%
Multi-sector	3.49%
Liquid absolute return	3.75%
U.S. large cap equity	7.21%
U.S. small cap equity	8.42%
Non-U.S. equity	8.34%
Core real estate	6.78%
Value add RE	7.29%

Discount Rate - The discount rate used to measure the total OPEB liability was 7.0% and 7.5% for June 30, 2020 and 2019, respectively. The discount rate is based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

Sensitivity of the net OPEB liability (asset) to changes in the discount rate The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current discount rate (7.0 percent) as of June 30, 2020:

	June 30, 2020		
	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability (asset)	$(26,376,741)	$(44,202,116)	$(59,182,348)

Note 6 – Net OPEB Liability (Asset) of BWL (Continued)

The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current discount rate (7.5 percent) as of June 30, 2019:

	June 30, 2019		
	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability (asset)	$(30,506,982)	$(46,608,898)	$(60,250,506)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates
The following presents the net OPEB liability (asset) of BWL, as well as what BWL's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1percentage point lower or 1 percentage point higher than the current healthcare cost trend rates as of June 30, 2020 and 2019:

	June 30, 2020		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability (asset)	$(60,529,722)	$(44,202,116)	$(24,480,910)

	June 30, 2019		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability (asset)	$(61,585,517)	$(46,608,898)	$(28,613,760)

Note 7 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under authoritative guidance are described as follows:

Note 7 – Fair Value Measurements (Continued)

Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019:

Money market fund: Valued at the quoted net asset value ("NAV") of shares held by the Plan at year-end.

Common Stock, Fixed income securities, and U.S. government obligations: Valued at the most recent closing price reported on the market on which individual securities are traded.

Note 7 – Fair Value Measurements (Continued)

Mutual and common collective funds: Valued at the daily closing price as reported by the fund. Mutual and common collective funds held by the Plan are open-end mutual and common collective funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual and common collective funds held by the Plan are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020 and 2019:

	June 30, 2020			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ –	$ 578,216	$ –	$ 578,216
Fixed income securities	–	283	–	283
Common Stock	85,193,786	–	–	85,193,786
Mutual funds	–	72,136,937	–	72,136,937
Common collective funds	–	40,856,781	–	40,856,781
Total	$ 85,193,786	$ 113,572,217	$ –	$ 198,766,003

	June 30, 2019			
Investment Type	Level 1	Level 2	Level 3	Total
Cash and money market trust fund	$ –	$ 3,437,276	$ –	$ 3,437,276
Fixed income securities	–	20,108,406	–	20,108,406
U.S. government obligations	–	18,994,138	–	18,994,138
Common Stock	67,168,552	–	–	67,168,552
Mutual funds	–	75,437,370	–	85,263,185
Common collective funds	–	9,825,815	–	–
Total	$ 67,168,552	$ 127,803,005	$ –	$ 194,971,557

Note 8 – Risks and Uncertainties

Plan contributions are made and the accrued actuarial liability is reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

In addition, the Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level 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 changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Note 9 – Subsequent Events

The Plan has evaluated subsequent events occurring through the date that the Plan's financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. There are no subsequent events warranting disclosures.

Required Supplementary Information

Post-Retirement Benefit Plan and Trust for
Eligible Employees of Lansing Board of Water and Light

Required Supplemental Information (Unaudited)
Schedule of Changes in BWL's
Net OPEB Liability and Related Ratios
Last Ten Fiscal Years
(in thousands)

	2020	2019	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*
Total OPEB Liability										
Service cost	$ 3,245	$ 4,403	$ 4,827	$ 3,130	$ -	$ -	$ -	$ -	$ -	$ -
Interest	10,804	14,920	15,039	14,226	-	-	-	-	-	-
Changes in benefit terms	-	(415)	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(6,093)	(5,231)	(9,880)	5,281	-	-	-	-	-	-
Changes in assumptions	7,254	(59,336)	(1,728)	(2,027)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Net Change in Total OPEB Liability	6,053	(54,937)	(2,137)	11,036	-	-	-	-	-	-
Total OPEB Liability - Beginning of year	148,550	203,487	205,624	194,588	-	-	-	-	-	-
Total OPEB Liability - End of year	154,603	148,550	203,487	205,624	-	-	-	-	-	-
Trust Net Position										
Contributions - Employer	9,157	9,278	10,395	9,574	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-	-
Net investment income	4,158	11,688	11,039	18,040	-	-	-	-	-	-
Administrative expenses	(512)	(569)	(634)	(705)	-	-	-	-	-	-
Benefit payments, including refunds	(9,157)	(9,278)	(10,395)	(9,574)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in Net Position Held in Trust	3,646	11,119	10,405	17,335	-	-	-	-	-	-
Trust fiduciary net position - Beginning of year	195,159	184,040	173,635	156,300	-	-	-	-	-	-
Trust fiduciary net position - End of year	198,805	195,159	184,040	173,635	-	-	-	-	-	-
BWL Net OPEB Liability (Asset) - Ending	**$ (44,202)**	**$ (46,609)**	**$ 19,447**	**$ 31,989**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Trust Fiduciary Net Position as a % of Total OPEB Liability (Asset)	128.59%	131.38%	90.44%	84.44%	- %	- %	- %	- %	- %	- %
Covered Employee Payroll	$ 58,198	$ 56,785	$ 55,650	$ 54,383	$ -	$ -	$ -	$ -	$ -	$ -
BWL's Net OPEB Liability (Asset) as a % of Covered Employee Payroll	(75.95%)	(82.08%)	34.95%	58.82%	- %	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2011 - 2016 is not available and this schedule will be presented on a prospective basis.

Required Supplemental Information (Unaudited)

Schedule of Employer Contributions

Last Ten Fiscal Years

(in thousands)

Fiscal Year Ended	Employer Contributions Required	Employer Contributions Actual	Difference of Required to Actual Contributions	Covered Employee Payroll	Percentage of Actual Contributions to Covered Payroll
6/30/2011	17,300	17,236	(64)	47,213	37%
6/30/2012	15,774	15,854	80	46,885	34%
6/30/2013	13,994	14,045	51	47,468	30%
6/30/2014	9,200	9,268	68	46,971	20%
6/30/2015	5,762	9,671	3,909	50,885	19%
6/30/2016	5,788	9,423	3,635	53,893	17%
6/30/2017	7,508	9,574	2,066	54,383	18%
6/30/2018	7,535	10,395	2,860	55,650	19%
6/30/2019	7,031	9,278	2,247	56,785	16%
6/30/2020	-	9,157	9,157	58,198	16%

Required Supplemental Information (Unaudited)
Schedule of Investment Returns
Last Ten Fiscal Years

	2020	2019	2018	2017	2016	2015*	2014*	2013*	2012*	2011*
Annual money-weighted rate of return, net of investment expense	2.13%	6.36%	6.37%	10.01%	0.32%	- %	- %	- %	- %	- %

*GASB Statement No. 74 was implemented as of June 30, 2017. Information from 2011 - 2015 is not available and this schedule will be presented on a prospective basis.

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2020, based on roll-forward of February 28, 2020 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	27 years
Inflation	2.25 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.0 percent per year compounded annually
Mortality	PUBH-2010 General Mortality Table projected generationally using MP-2019 scale

Actuarial valuation information relative to the determination of contributions:

Valuation date	June 30, 2019, based on roll-forward of February 28, 2019 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level % of salary method
Amortization method	Level dollar over a 30-year closed period
Remaining amortization period	28 years
Inflation	3.0 percent
Salary increases	9.3 percent growth at age 25 and decreases to 6.4 percent for ages 60+. This percentage includes general wage inflation and merit / productivity increases.
Investment rate of return	7.5 percent per year compounded annually
Mortality	PUBH-2010 General Mortality Table projected generationally using MP-2018 scale

Significant Changes:

June 30, 2020

> Difference between actual and expected experience - The $6.09MM gain on the Total OPEB Liability for the fiscal year ending June 30, 2020 is attributable to the combination of unfavorable demographic experience and a reduction in the per capita claims cost used in the June 30, 2020 valuation. The $1.13MM loss associated with demographic experience is mainly attributable to active participant retirements. The $7.22MM gain due to a reduction in per capita claims cost is attributable a decrease in the Pre-65 medical and prescription drug premiums for 2020. The 2019 Pre-65 medical and Rx monthly premium for a retiree was $1,073.13. For 2020, the Pre-65 medical and Rx monthly premium for a retiree is $957.99. An 11% reduction in monthly premium. The combination of the demographic loss and the reduction in monthly premiums resulted in the overall $6.09MM actuarial gain.

> Assumption change - The $7.25MM loss on the Total OPEB liability for the fiscal year ending June 30, 2020 is attributable to updating the mortality improvement scale to the MP-2019 scale and decreasing the discount rate from 7.50% to 7.00%. Updating the mortality improvement scale resulted in a $.53MM actuarial gain. Whereas, decreasing the discount rate resulted in a $7.78MM actuarial loss. The combination of these changes resulted in the overall $7.25MM actuarial loss.

June 30, 2019

> Difference between actual and expected experience - The $5.2 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2019 is primarily due to favorable demographic experience. The favorable experience is mainly attributable to terminations of active participants and deaths of participants with and without beneficiaries.

Significant Changes (Continued):

> Assumption changes - (1) The plan experienced a $54.4 million gain on the Total OPEB Liability due to a change of the assumed per capita claims cost. The Board changed the Plan's insurance provider for Medicare eligible participants from The Hartford and Envision Insurance to Humana. Doing so resulted in a dramatic decrease in both the medical and prescription drug monthly premiums from the prior fiscal year ($98.99 per month vs. $219.54 per month for medical coverage and $213.47 per month vs. $305.00 per month for prescription drug coverage); (2) The Plan experienced a $3.8 million loss on the mortality assumption change. The mortality assumption was updated from the RPH-2014 Total Dataset mortality, adjusted to 2006 and projected generationally using the MP-2017 improvement scale to the PUBH-2010 General Employees Mortality, projected generationally using the MP-2018 improvement scale; and (3) The Plan experienced a $8.7 million gain on a change to the medical and prescription drug trend assumptions. The trend assumptions were changed to those prescribed under the Michigan Uniform Assumptions for the 2019 fiscal year.

> Change in benefit terms - The Plan experienced a $.4 million gain due to an expected increase in the retiree contribution percentage for employees hired on or after January 1, 2009. The expected contribution percentage was increased from 14% to 20% of the premium charged to active employees.

June 30, 2018

> Difference between actual and expected experience - The $9.9 million gain on the Total OPEB Liability for the fiscal year ending June 30, 2018 is attributable to a reduction in the per capita claims cost used in the 6/30/2018 valuation. Better than expected claims experience during the fiscal year resulted in a decrease in the projected claims when compared to those used in the 6/30/2017 valuation.

> Assumption change - The mortality improvement scale was updated to the MP-2017 scale.