Town of Narragansett and Narragansett School System Other Postemployment Benefits GASB 45 Financial Report

For the Fiscal Year Ending
June 30, 2012

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Certification

This report summarizes the GASB actuarial valuation for Town of Narragansett and Narragansett School System for the 2011/12 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

The actuarial assumptions were selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All computations have been made in accordance with generally accepted actuarial principles and practice.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report.

Nyhart

Randy Gomez, FSA, MAAA

Evi Laksana, ASA, MAAA

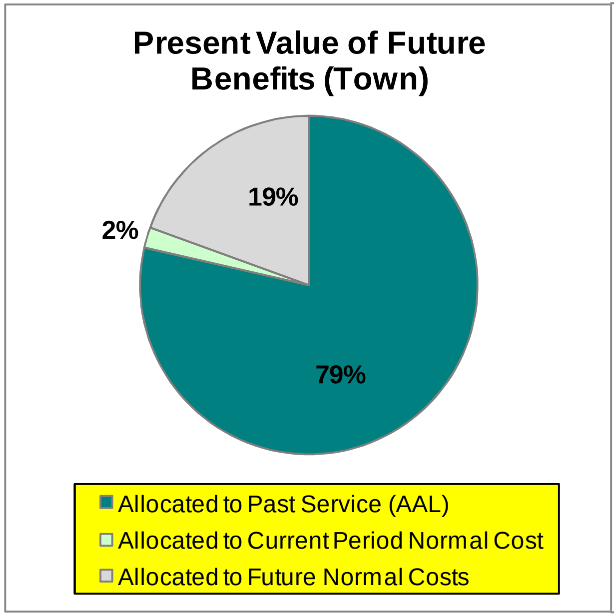
February 1, 2013

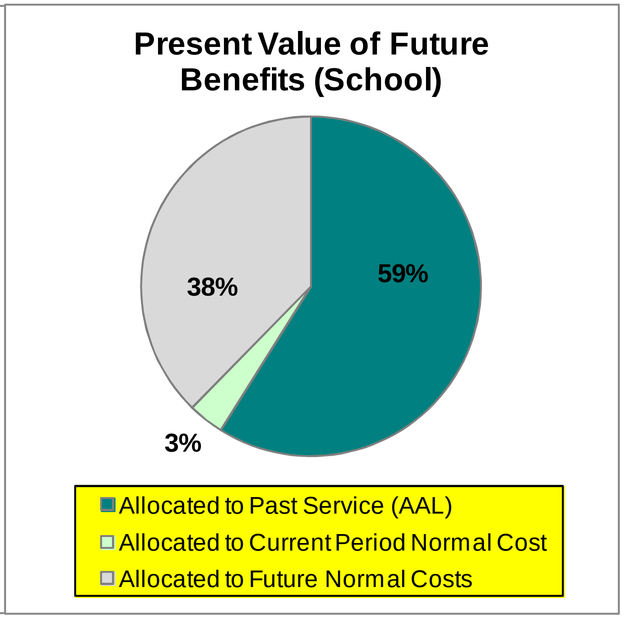
Sources of GASB Liabilities and Assets

1. The Town and School System explicitly subsidize retiree health care coverage. Refer to Substantive Plan Provisions section for more information on the explicit subsidies provided.
2. Retiree health coverage is implicitly more expensive than active health coverage. This higher cost of coverage creates a GASB 45 liability assigned to the Town and School.
3. The Town and School System have historically funded its retiree health benefits on a pay-as-you-go basis.

Below is the breakdown of Present Value of Future Benefits (PVFB) allocated for past, current, and future service. Pages 3 and 4 show the GASB results for the fiscal year beginning July 1, 2011 based on the Projected Unit Credit cost method.

	Present Value of Future Benefits (PVFB)	***Actuarial Accrued Liability (AAL)*** *PVFB allocated to past service*	***Normal Cost (NC)*** *PVFB allocated to current period service*	***Future Normal Costs*** *PVFB allocated to future service*
As of 7/1/2011	***A***	***B***	***C***	***D = A – B – C***
Town	$ 85,729,050	$ 67,695,108	$ 1,726,631	$ 16,307,311
School	$ 6,199,963	$ 3,652,675	$ 211,680	$ 2,335,608
Total	**$ 91,929,013**	**$ 71,347,783**	**$ 1,938,311**	**$ 18,642,919**



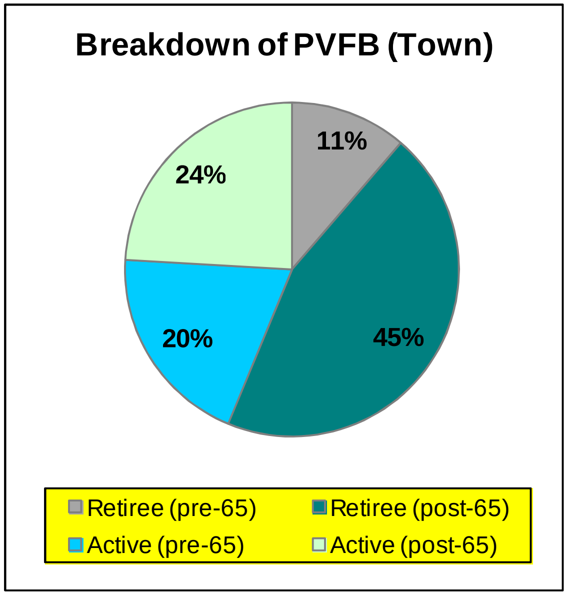


PVFB is the amount needed as of July 1, 2011 to fully fund the Town and School's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

AAL is the portion of PVFB considered to be accrued or earned as of July 1, 2011 This amount is a required disclosure in the Required Supplementary Information section.

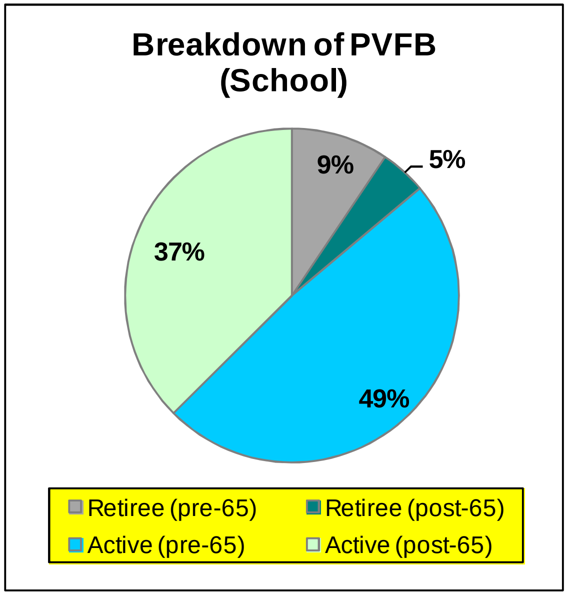
NC is the portion of actuarial present value of retiree health care benefits and expenses allocated to 2011/12 by the actuarial cost method (Projected Unit Credit).

Summary of Results



1. Present Value of Future Benefits (PVFB) as of July 1, 2011

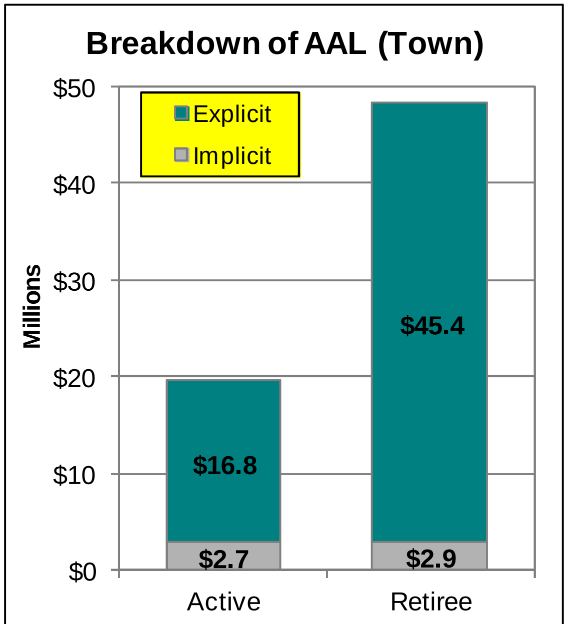
Current retirees	*Town*	*School*	*Total*
Explicit (Pre-Medicare)	$ 6,827,444	$ 220,639	$ 7,048,083
Implicit (Pre-Medicare)	2,862,652	363,032	3,225,684
Post-Medicare	38,525,887	277,694	38,803,581
Total	$ 48,215,983	$ 861,365	$ 49,077,348
Future retirees			
Explicit (Pre-Medicare)	$ 11,622,862	$ 2,754,237	$ 14,377,099
Implicit (Pre-Medicare)	5,257,384	262,794	5,520,178
Post-Medicare	20,632,821	2,321,567	22,954,388
Total	$ 37,513,067	$ 5,338,598	$ 42,851,665
Total PVFB	$ 85,729,050	$ 6,199,963	$ 91,929,013
Discount rates	4.50%	4.50%	4.50%

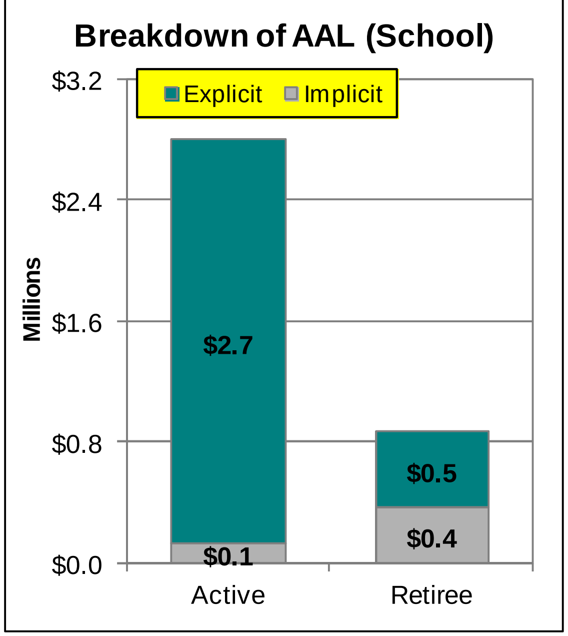


Summary of Results – Continued

2. Actuarial Accrued Liabilities (AAL) as of July 1, 2011

Current retirees	*Town*	*School*	*Total*
Explicit (Pre-Medicare)	$ 6,827,444	$ 220,639	$ 7,048,083
Implicit (Pre-Medicare)	2,862,652	363,032	3,225,684
Post-Medicare	38,525,887	277,694	38,803,581
Total	$ 48,215,983	$ 861,365	$ 49,077,348
Future retirees			
Explicit (Pre-Medicare)	$ 6,042,649	$ 1,450,248	$ 7,492,897
Implicit (Pre-Medicare)	2,722,628	127,220	2,849,848
Post-Medicare	10,713,848	1,213,842	11,927,690
Total	$ 19,479,125	$ 2,791,310	$ 22,270,435
Total liabilities	$ 67,695,108	$ 3,652,675	$ 71,347,783
Discount rates	4.50%	4.50%	4.50%





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Summary of Results – Continued

3. Income Statement and Balance Sheet Impact

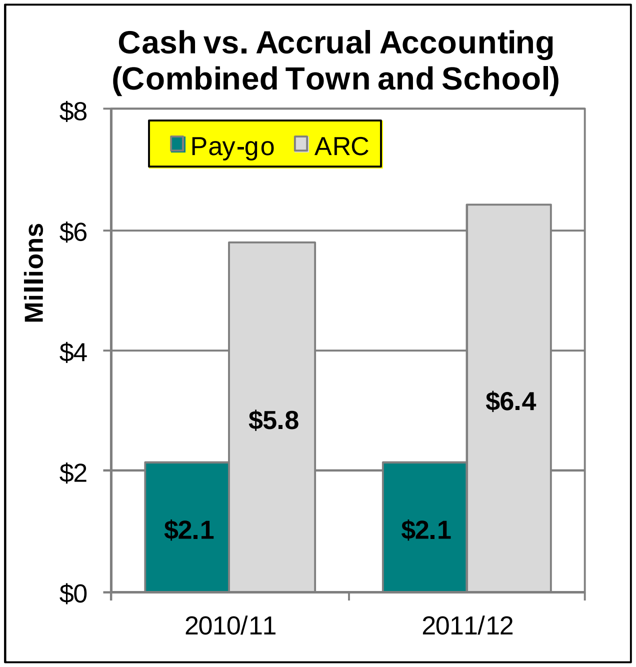
For FY 2011/12	***Town***	***School***	***Total***
Annual OPEB Cost (Affects Income Statement)	$ 5,741,131	$ 441,643	$ 6,182,774
Total Employer Contributions (Affects Income Statement)	$ 1,858,962	$ 274,490	$ 2,133,452
Net OPEB Obligation (year-end) (Affects Balance Sheet Liability)	$ 17,249,192	$ 399,346	$ 17,648,538

For FY 2010/11	***Town***	***School***	***Total***
Annual OPEB Cost (Affects Income Statement)	$ 5,142,244	$ 473,447	$ 5,615,691
Total Employer Contributions (Affects Income Statement)	$ 1,899,453	$ 241,254	$ 2,140,707
Net OPEB Obligation (year-end) (Affects Balance Sheet Liability)	$ 13,367,023	$ 232,193	$ 13,599,216

For Fiscal Year Ending June 30, 2012

Required Supplementary Information	*Town*	*School*	*Total*
Actuarial Accrued Liability as of beginning of year	$ 67,695,108	$ 3,652,675	$ 71,347,783
Actuarial Value of Assets as of beginning of year	0	0	0
Unfunded Actuarial Accrued Liability (UAAL)	**$ 67,695,108**	**$ 3,652,675**	**$ 71,347,783**
Covered payroll	$ 8,839,013	$ 15,112,602	$ 23,951,615
UAAL as a % of covered payroll	765.9%	24.2%	297.9%

Annual Required Contribution	*Town*	*School*	*Total*
Normal cost as of beginning of year	$ 1,726,631	$ 211,680	$ 1,938,311
Amortization of the UAAL for 30 years	3,976,945	214,587	4,191,532
Total normal cost and amortization payment	$ 5,703,576	$ 426,267	$ 6,129,843
Interest to end of year	256,661	19,182	275,843
Total Annual Required Contribution (ARC)	**$ 5,960,237**	**$ 445,449**	**$ 6,405,686**



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The GASB 45 ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

For Fiscal Year Ending June 30, 2012

Annual OPEB Cost and Net OPEB Obligation	*Town*	*School*	*Total*
ARC as of end of year	$ 5,960,237	$ 445,449	$ 6,405,686
Interest on Net OPEB Obligation (NOO) to end of year	601,516	10,449	611,965
Total adjustment to the ARC	(820,622)	(14,255)	(834,877)
Annual OPEB cost	$ 5,741,131	$ 441,643	$ 6,182,774
Estimated employer contribution for pay-go costs	(1,858,962)	(274,490)	(2,133,452)
Annual employer contribution for pre-funding	0	0	0
Change in NOO	$ 3,882,169	$ 167,153	$ 4,049,322
NOO as of beginning of year	13,367,023	232,193	13,599,216
NOO as of end of year	**$ 17,249,192**	**$ 399,346**	**$ 17,648,538**

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules.

The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance.

The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

For Fiscal Year Ending June 30, 2011

Required Supplementary Information	*Town*	*School*	*Total*
Actuarial Accrued Liability as of beginning of year	$ 60,598,047	$ 3,721,274	$ 64,319,321
Actuarial Value of Assets as of beginning of year	0	0	0
Unfunded Actuarial Accrued Liability (UAAL)	**$ 60,598,047**	**$ 3,721,274**	**$ 64,319,321**
Covered payroll	$ 8,644,525	$ 15,293,489	$ 23,938,014
UAAL as a % of covered payroll	701.0%	24.3%	268.7%

Annual Required Contribution	*Town*	*School*	*Total*
Normal cost as of beginning of year	$ 1,519,607	$ 234,442	$ 1,754,049
Amortization of the UAAL for 30 years	3,560,007	218,617	3,778,624
Total normal cost and amortization payment	$ 5,079,614	$ 453,059	$ 5,532,673
Interest to end of year	228,582	20,388	248,970
Total Annual Required Contribution (ARC)	**$ 5,308,196**	**$ 473,447**	**$ 5,781,643**

Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The GASB 45 ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

For Fiscal Year Ending June 30, 2011

Annual OPEB Cost and Net OPEB Obligation	*Town*	*School*	*Total*
ARC as of end of year	$ 5,308,196	$ 473,447	$ 5,781,643
Interest on Net OPEB Obligation (NOO) to end of year	455,590	0	455,590
Total adjustment to the ARC	(621,542)	0	(621,542)
Annual OPEB cost	$ 5,142,244	$ 473,447	$ 5,615,691
Annual employer contribution for estimated pay-go costs	(1,899,453)	(241,254)	(2,140,707)
Annual employer contribution for pre-funding	0	0	0
Change in NOO	$ 3,242,791	$ 232,193	$ 3,474,984
NOO as of beginning of year	10,124,232	0	10,124,232
NOO as of end of year	**$ 13,367,023**	**$ 232,193**	**$ 13,599,216**

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules.

The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance.

The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

(Combined Town and School)

Schedule of Funding Progress

As of	*Actuarial Value of Assets (AVA)*	*Actuarial Accrued Liability (AAL)*	*Unfunded Actuarial Accrued Liability (UAAL)*	*AVA as a % of AAL*	*Covered Payroll*	*UAAL as a % of Covered Payroll*
	A	*B*	*C = B – A*	*D = A / B*	*E*	*F = C / E*
July 1, 2011	$ -	$ 71,347,783	$ 71,347,783	0.0%	$ 23,951,615	297.9%
July 1, 2010	$ -	$ 64,319,321	$ 64,319,321	0.0%	$ 23,938,014	268.7%
July 1, 2009	$ -	$ 72,792,463	$ 72,792,463	0.0%	$ 21,069,482	345.5%

Schedule of Employer Contributions

FYE	*Employer Contributions*	*Annual Required Contribution (ARC)*	*% of ARC Contributed*
	A	*B*	*C = A / B*
June 30, 2012	$ 2,133,452	$ 6,405,686	33.3%
June 30, 2011	$ 2,140,707	$ 5,781,643	37.0%
June 30, 2010	$ 1,447,706	$ 6,549,964	22.1%

Historical Annual OPEB Cost

As of	*Annual OPEB Cost*	*% of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
June 30, 2012	$ 6,182,774	34.5%	$ 17,648,538
June 30, 2011	$ 5,615,691	38.1%	$ 13,599,216
June 30, 2010	$ 6,549,964	22.1%	$ 10,124,232

The Actuarial Accrued Liability (AAL) is expected to change on an annual basis as a result of expected and unexpected events. Under normal circumstances, it is generally expected to have a net increase each year. Below is a list of the most common events affecting the AAL and whether they increase or decrease the liability.

Expected Events

- Increases in AAL due to additional benefit accruals as employees continue to earn service each year
- Increases in AAL due to interest as the employees and retirees age
- Decreases in AAL due to benefit payments

Unexpected Events

- Increases in AAL when actual premium rates increase more than expected. A liability decrease occurs when premium rates increase less than expected.
- Increases in AAL when more new retirements occur than expected or fewer terminations occur than anticipated. Liability decreases occur when the opposite outcomes happen.
- Increases or decreases in AAL depending on whether benefit provisions are improved or reduced.

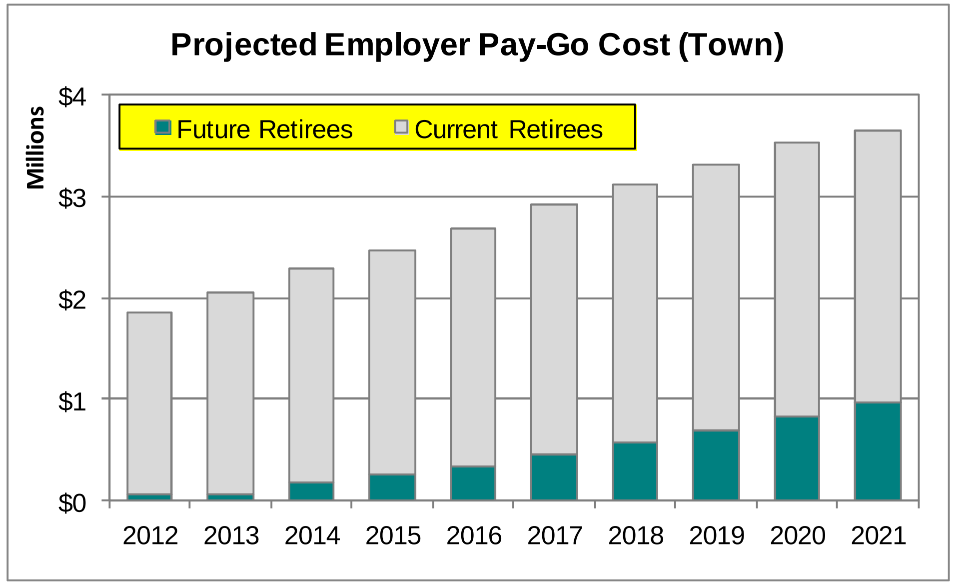
2011/12	***Town***	***School***	***Total***
Actuarial Accrued Liability as of beginning of year	$ 67,695,108	$ 3,652,675	$ 71,347,783
Normal cost as of beginning of year	1,726,631	211,680	1,938,311
Expected benefit payments during the year	(1,858,962)	(274,490)	(2,133,452)
Interest adjustment to end of year	3,082,612	167,788	3,250,400
Expected Actuarial Accrued Liability as of end of year[1]	$ 70,645,389	$ 3,757,653	$ 74,403,042
Actuarial (gain) / loss	TBD	TBD	TBD
Actuarial Accrued Liability as of end of year	TBD[2]	TBD	TBD

[1] The above reconciliation is calculated using a “no loss/gain” basis for illustration purposes only. The actual 2010/11 year-end liability may be higher or lower depending on plan experience.
[2] The Town has established a trust dedicated to retiree healthcare costs and the first contribution of $550,000 was made on June 18, 2012.

The projection below shows the anticipated pay-as-you-go cost for employer subsidized benefits for the next 10 years. Results are shown separately for current and future retirees. The projections include explicit and implicit subsidies.

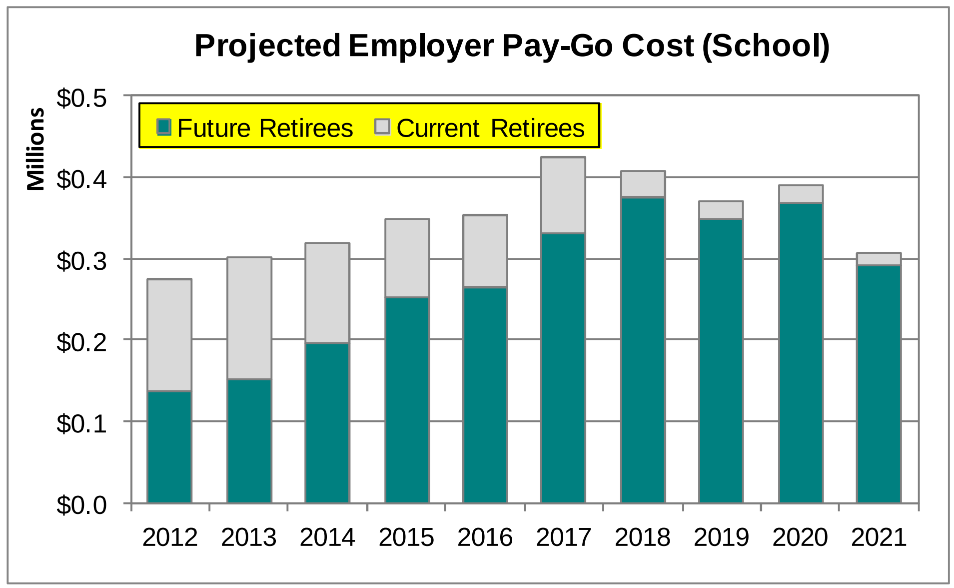
Town

FYE	*Future Retirees*	*Current Retirees*	*Total*
2012	$ 67,379	$ 1,791,583	$ 1,858,962
2013	$ 74,117	$ 1,970,742	$ 2,044,859
2014	$ 182,777	$ 2,108,366	$ 2,291,143
2015	$ 256,695	$ 2,210,779	$ 2,467,474
2016	$ 346,241	$ 2,331,513	$ 2,677,754
2017	$ 460,615	$ 2,458,847	$ 2,919,462
2018	$ 567,235	$ 2,555,077	$ 3,122,312
2019	$ 691,712	$ 2,627,465	$ 3,319,177
2020	$ 829,867	$ 2,693,988	$ 3,523,855
2021	$ 966,679	$ 2,684,050	$ 3,650,729



School

FYE	*Future Retirees*	*Current Retirees*	*Total*
2012	$ 137,995	$ 136,495	$ 274,490
2013	$ 151,794	$ 150,145	$ 301,939
2014	$ 196,796	$ 121,315	$ 318,111
2015	$ 251,749	$ 96,173	$ 347,922
2016	$ 264,031	$ 88,884	$ 352,915
2017	$ 332,352	$ 92,101	$ 424,453
2018	$ 376,496	$ 30,806	$ 407,302
2019	$ 348,801	$ 22,582	$ 371,383
2020	$ 368,359	$ 20,848	$ 389,207
2021	$ 293,056	$ 14,133	$ 307,189



Eligibility and Benefit

Municipal Employees	Employees who have attained age 58 with 10 years of service or 20 years of service (whichever is earlier) are eligible for lifetime medical, dental, and life insurance benefits.
	Effective July 1, 2004, retirees under the age of 65 will be enrolled in Blue Cross Healthmate Coast to Coast plan.
	Effective July 1, 2001, retirees age 65 and over will be enrolled in Blue Cross Plan 65.
	Current and future retirees who waive coverage from the Town due to equivalent coverage elsewhere shall be reimbursed 50% of the Town's medical and dental cost depending on their coverage level (individual or family) payable at the end of each contract year.
Fire	Firefighters who have 20 years of service are eligible for lifetime medical, dental, and life insurance benefits.
	Effective July 1, 2001, retirees under the age of 65 will be enrolled in Blue Cross Healthmate Coast to Coast plan and coverage will switch to Blue Cross Plan 65 once they reach age 65. Employees retiring on/after January 1, 2011 will no longer receive subsidized Medicare Supplement plan coverage.
	Upon reaching age 65, the Town will reimburse the Medicare Part B premium cost to the retirees and spouses.
	Current and future retirees who waive coverage from the Town due to equivalent coverage elsewhere shall be reimbursed 50% of the Town's medical and dental cost depending on their coverage level (individual or family) payable quarterly.
Police	Police officers who have attained age 58 with 10 years of service or 20 years of service (whichever is earlier) are eligible for lifetime medical, dental, and life insurance benefits.
	Retirees under the age of 65 will be enrolled in Blue Cross Healthmate Coast to Coast plan and coverage will switch to Blue Cross Plan 65 once they reach age 65.
	Upon reaching age 65, the Town will reimburse the Medicare Part B premium cost to the retirees and spouses.
	Current and future retirees who waive coverage from the Town due to equivalent coverage elsewhere shall be reimbursed 60% of the Town's group health insurance cost depending on their coverage level (individual or family) payable quarterly.

Life Insurance

Town employees meeting the eligibility requirements are eligible for a $50,000 retiree life insurance benefit.

Dental

Town employees meeting the eligibility requirements are eligible for lifetime dental benefits.

Retiree Cost Sharing

Municipal Employees

Employees retiring prior to January 1, 2010 receive free individual health coverage. If a retiring employee has a spouse then the Town shall provide an individual plan for the spouse. Coverage is also free for dental and life insurance.

Council 94

Council 94 Municipal employees who retire on/after January 1, 2010 but prior to January 1, 2012 contribute 2% of their monthly pension towards healthcare cost (including dental and life insurance). Those who retire on/after the below listed dates contribute a percentage of premiums towards healthcare cost (including dental).

- Date of retirement on/after January 1, 2012: 10%
- Date of retirement on/after July 1, 2012: 12%
- Date of retirement on/after July 1, 2013: 15%

Employees choosing family coverage shall be responsible for the additional family plan premium cost. Employees who retire on/after July 1, 2011 will no longer receive a Medicare Part B subsidy.

Local 1033

Local 1033 employees who retire on/after January 1, 2010 but before January 1, 2012 contribute 2% of their monthly pension towards healthcare cost (including dental and life insurance). Those who retire on/after the below listed dates contribute a percentage of premiums towards healthcare cost (including dental).

- Date of retirement on/after January 1, 2012: 10%
- Date of retirement on/after July 1, 2013: 12%
- Date of retirement on/after July 1, 2014: 15%

Non-Union

Non-Union employees who retire on/after January 1, 2010 contribute 2% of their monthly pension towards healthcare cost (including dental and life insurance).

Retiree Cost Sharing (Continued)

Fire	Employees who retired prior to July 1, 1987 shall receive $1,000 annually towards their medical plans. There are no retirees belonging in this category. Employees who retired on/after July 1, 1987 receive free coverage for health, dental, and life insurance. Employees who retired on/after January 1, 2011 are required to contribute 20% of premium towards the cost of their healthcare. These employees will no longer have a subsidized Medicare Supplement coverage.
Police	Employees who retire prior to January 1, 2010 receive free coverage upon retirement (health, dental, and life insurance). Employees who retire on/after January 1, 2010 but before January 1, 2011 contribute 2% of their monthly pension towards healthcare cost (including dental and life insurance). Those who retire on/after January 1, 2011 contribute 5% of their monthly pension towards healthcare cost. Deputy police chief contribution requirement follows non-union employees. Employees choosing family coverage shall be responsible for the additional family plan premium cost.
Spouse Benefit	Spouse coverage continues upon death of the retiree. No spouse benefit is available if the employee dies prior to health care benefits eligibility.
Pension Benefit	The basic pension benefit is 2.5% of the highest average compensation for the last 3 years multiplied by credited service, limited to 30 years.

Medical Benefits

Same benefits are available to retirees as active employees. Town of Narragansett is a member of WB Community Health. There are other cities and education associations that are members of the Community but each plan sponsor is treated as a self-insured health plan (i.e. their assets are not pooled together).

Pre-Medicare

Healthmate Coast to Coast is available to all retired employees under age 65.

United Health Plan is available to Local 1033 future retirees under age 65 hired prior to July 1, 2001 upon retirement.

Classic Blue Cross and Managed Care plans are available to certain future retired employees under age 65.

Post-Medicare

All retirees except for several grandfathered retirees must convert to Blue Cross Plan 65 once they reach age 65. This plan is a community-based rider and all members of the WB Community Health pay the same rate for the same plan.

Medical Premium Rates

The monthly premiums by plan effective July 1, 2012 are as shown below.

Plan	EE Only	2-person
Classic Blue	$ 579.96	$ 1,727.42
Healthmate Coast to Coast	$ 530.32	$ 1,060.64
Healthmate 250	$ 482.60	$ 965.20
United Health Plan	$ 822.77	$ 1,645.54
Blue Cross Plan 65	$ 526.53	$ 1,053.06

Dental Benefits

Dental plan is fully-insured and experience-rated. Monthly dental premium rate effective July 1, 2012 is $31.35 for single coverage and $62.70 for two-person coverage.

The actuarial assumptions used in this report represent a reasonable long-term expectation of future OPEB outcomes. As national economic and Town experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

There are no significant changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2011. For the current year GASB valuation, we have updated the mortality table, health care trend rates, and per capita costs. We expect to update health care trend rates and per capita costs again for the next full GASB valuation, which will be for the fiscal year ending June 30, 2014.

Measurement Date	June 30, 2012 with results actuarially rolled-back to July 1, 2011 on a "no loss/no gain" basis
Discount Rate	4.5% unfunded
Inflation Rate	3.0%
Census Data	Census data was provided by the Town and it was collected as of October 2012. We have reviewed it for reasonableness and no material modifications were made to the census data.
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar over thirty years based on an open group
Health Care Coverage Election Rate	Active employees with current coverage: 100% Active employees with no coverage: 0% Inactive employees with current coverage: 100% Inactive employees with no coverage: 0%
Spousal Coverage	75% of employees are assumed to be married upon retirement. Spousal coverage for current retirees is based on actual data. Husbands are assumed to be three years older than wives.
Employer Funding Policy	Pay-as-you-go cash basis
Mortality	RP-2000 Combined Mortality Table fully generational using Scale AA (Prior valuation used RP-2000 Combined Mortality Table projected to 2010 using Scale AA).
Disability	None

Turnover Rate

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months.

The termination rates are based on standard actuarial termination tables adjusted for the Town's historical termination experience. Sample annual turnover rates are shown below:

Age	Municipal	Police & Fire
25	5.3%	4.9%
30	5.1%	3.7%
35	4.7%	2.3%
40	4.2%	1.1%
45	3.5%	0.3%
50	2.5%	0.0%
55	0.9%	0.0%

Retirement Rate

Annual rates of retirement are as shown below.

Fire

Age	Rates
45 – 61	25%
62	50%
63 – 64	25%
65+	100%

All Others

Age	<20 YOS	<20 YOS
50 – 57	0%	25%
58	25%	25%
59 – 61	15%	25%
62	30%	30%
63 – 64	15%	25%
65+	100%	100%

Per Capita Costs

Annual per capita costs were calculated based on 2012/13 premium rates by plan for retirees under 65 and Blue Cross Plan 65 for retirees over the age of 65, actuarially increased using health index factors and current enrollment. The costs are assumed to increase with health care trend rates. Annual per capita costs are as shown below:

Age	Healthmate C2C	Healthmate 250	United	All others
50 – 54	$ 7,000	$ 5,800	$ 9,900	$ 7,000
55 – 59	$ 8,600	$ 7,000	$ 12,000	$ 8,500
60 – 64	$ 10,600	$ 8,700	$ 14,800	$ 10,400
65 – 69	$ 5,600	$ 5,600	$ 5,600	$ 5,600
70 – 74	$ 6,600	$ 6,600	$ 6,600	$ 6,600
75+	$ 7,700	$ 7,700	$ 7,700	$ 7,700

There are several grandfathered retirees who are not required to sign up for Medicare. The annual per capita costs for these retirees are as shown below.

Age	Healthmate	Classic Blue
50 – 54	$ 7,000	$ 7,000
55 – 59	$ 8,600	$ 8,500
60 – 64	$ 10,600	$ 10,400
65 – 69	$ 11,400	$ 11,300
70 – 74	$ 12,300	$ 12,200
75+	$ 14,300	$ 14,100

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

Annual dental per capita cost is $376 and is assumed to increase with dental trend rates.
Annual Medicare Part B reimbursement cost is $1,259 and is assumed to increase with Part B trend rates.

Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

Health Care Trend Rates

FYE	Medical	Dental	Part B
2013	10.00%	5.00%	3.00%
2014	9.00%	4.50%	3.25%
2015	8.00%	4.00%	3.50%
2016	7.00%	3.50%	3.75%
2017	6.50%	3.00%	4.00%
2018	6.00%	3.00%	4.25%
2019	5.50%	3.00%	4.25%
2020+	5.00%	3.00%	4.25%

The initial trend rate was based on the plan's actual experience. The subsequent year trend rates were selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

Explicit Subsidy

The difference between (a) the premium rate and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retired firefighter enrolled in Healthmate Coast to Coast plan.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Retiree	$ 530.32	$ 0.00	$ 530.32
Spouse	$ 530.02	$ 0.00	$ 530.02

Implicit Subsidy

The difference between (a) the per capita cost and (b) the premium rate. Below is an example of the monthly implicit subsidies for a 60 – 64 retired firefighter enrolled in Healthmate Coast to Coast plan.

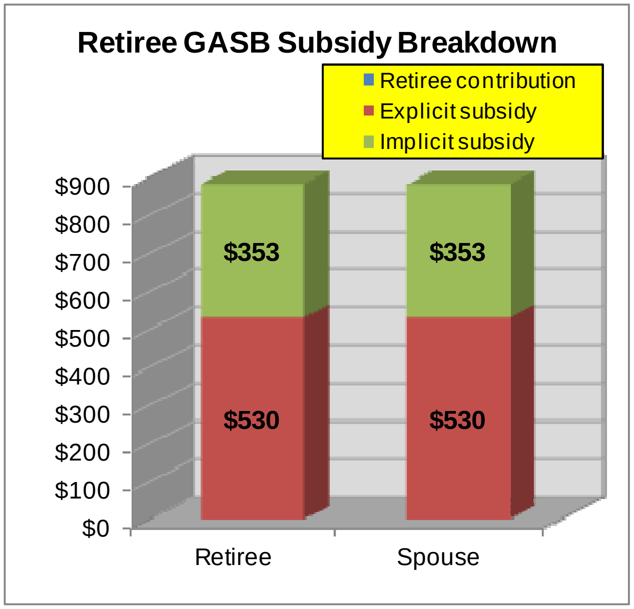
	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 883.33	$ 530.32	$ 353.01
Spouse	$ 883.33	$ 530.02	$ 353.31

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.

GASB Subsidy Breakdown

Below is a breakdown of the GASB 45 monthly total cost for a 60 – 64 retired firefighter and spouse enrolled in Healthmate Coast to Coast plan.

	Retiree	Spouse
Retiree contribution	$ 0	$ 0
Explicit subsidy	$ 530	$ 530
Implicit subsidy	$ 353	$ 353
Total monthly cost	$ 883	$ 883



Eligibility

Certified Teachers

Certified teachers are eligible for retiree health care benefits until Medicare eligibility once they meet the retirement eligibility requirements under Rhode Island State Employee Retirement System (RI ERS). RI ERS eligibility requirements are as follows:

1. For teachers hired prior to July 1, 1995: earlier of a) 28 years of service or b) age 60 with 10 years of service
2. For teachers hired on/after July 1, 1995:
    a. Eligible to retire by September 30, 2009: earlier of a) age 59 with 29 years of service or b) age 65 with 10 years of service
    b. Not eligible to retire by September 30, 2009: earlier of a) age 62 with 29 years of service or b) age 65 with 10 years of service

Support Professionals and Other School Employees

Narragansett School System employees are eligible for retiree health care benefits until Medicare eligibility once they meet the following eligibility requirements:

1. Age 58 with 10 years of service; or
2. 20 years of service

Spouse Benefit

If the employee has a spouse covered at retirement, the spouse can stay in the group health plan for the duration of the sick leave conversion benefit. Once the sick leave conversion benefit is exhausted, no spousal coverage is offered (ie. retiree can only buy insurance for him/herself).

No spouse benefit is available if the employee dies prior to health care benefit eligibility.

Retiree Cost Sharing

Retirees are responsible for 100% of the premium cost plus a 2% administrative fee once any accrued sick pay balance which is converted to pay for health and dental care have been exhausted.

Medical Benefits

Same benefits are available to retirees as active employees. Narragansett School System is a member of WB Community Health. There are other cities and education associations that are members of the Community but each plan sponsor is treated as a self-insured health plan (i.e. their assets are not pooled together).

Pre-Medicare

Classic Blue and Healthmate Coast to Coast plans are available to all retired employees under age 65.

Post-Medicare

All retirees except for Administrators must convert to Blue Cross Plan 65 once they reach age 65. This plan is a community-based rider and all members of the WB Community Health pay the same rate for the same plan.

Medical Premium Rates

The monthly premiums by plan effective July 1, 2012 are as shown below.

Plan	EE Only	Family
Classic Blue	$ 465.78	$ 1,391.20
Healthmate Coast to Coast	$ 460.44	$ 1,324.02
Blue Cross Plan 65	$ 647.36	$ 1,294.72

Dental Benefits

Dental plan is fully-insured and experience-rated. Monthly dental premium rate effective July 1, 2012 is $37.34 for single coverage and $110.52 for family coverage.

Sick Leave Conversion Benefit

Certified Teachers

Teachers with a minimum of 10 years of teaching experience in the Narragansett School System upon retirement can convert accumulated sick pay up to 48 months of a single health and dental plan or up to 24 months of a family health and dental plan.

Once accumulated sick pay is exhausted, they can continue to participate in health and dental plans at their own cost.

Teachers may elect to defer commencement of healthcare coverage for a period of no more than 5 years during which they shall pay the difference between the established cash value of the reimbursement and the cost of the elected health care plan.

For GASB valuation purposes it is assumed:
1. All employees convert the maximum allowable accumulated sick pay for health and dental coverage.
2. Healthcare coverage begins immediately.
3. Accumulated sick leave dollar value will be exhausted in 2 years for retiree with family coverage and 4 years for retiree with single coverage.

Support Professionals

Upon separation, support professionals may receive a total of sixty-five percent (65%) of his/her accumulated sick leave dollar value for the specific purpose of purchasing health care.

For GASB valuation purposes it is assumed:
1. All employees convert the maximum allowable accumulated sick pay for health and dental coverage.
2. Healthcare coverage begins immediately.
3. Accumulated sick leave dollar value will be exhausted in 1 year for retiree with family coverage and 3 years for retiree with single coverage.

Other School Employees

Upon separation, all other school employees may apply the reimbursement of unused sick time and vacation towards the purchase of health and dental benefits at a discounted rate of 70% of their actual cost to the Narragansett School System.

Individuals may delay the implementation of this benefit for up to 5 years after severance.

For GASB valuation purposes it is assumed:
1. All employees convert the maximum allowable accumulated sick pay for health and dental coverage.
2. Healthcare coverage begins immediately.
3. Accumulated sick leave dollar value will be exhausted in 2 years for retiree with family coverage and 4 years for retiree with single coverage.

The actuarial assumptions used in this report represent a reasonable long-term expectation of future OPEB outcomes. As national economic and School System experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

There are no significant changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2011. For the current year GASB valuation, we have updated the mortality table, health care trend rates, and per capita costs. We expect to update health care trend rates and per capita costs again for the next full GASB valuation, which will be for the fiscal year ending June 30, 2014.

Measurement Date	June 30, 2012 with results actuarially rolled-back to July 1, 2011 on a "no loss/no gain" basis
Discount Rate	4.5% unfunded
Inflation Rate	3.0%
Census Data	Census data was provided by the School and it was collected as of September 2012. We have reviewed it for reasonableness and no material modifications were made to the census data.
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar over thirty years based on an open group
Health Care Coverage Election Rate	Active employees with current coverage: 100% (reduces to 50% once the accumulated sick pay balance is exhausted) Active employees with no coverage: 0%
	Inactive employees with current coverage: 100% (reduces to 50% once the accumulated sick pay balance is exhausted) Inactive employees with no coverage: 0%
Self-pay Inactive	Inactive employees with current coverage: 100% Inactive employees with no coverage: 0%
Spousal Coverage	Spousal coverage for active employees and current retirees is based on actual data.
	Husbands are assumed to be three years older than wives.
Employer Funding Policy	Pay-as-you-go cash basis
Mortality	RP-2000 Combined Mortality Table fully generational using Scale AA (Prior valuation used RP-2000 Combined Mortality Table projected to 2010 using Scale AA).
Disability	None

Turnover Rate

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months.

The termination rates are based on standard actuarial termination tables adjusted for the School System's historical termination experience. Sample annual turnover rates are shown below:

Age	Support	All Others
25	10.6%	4.9%
30	10.1%	3.7%
35	9.4%	2.3%
40	8.4%	1.1%
45	7.1%	0.3%
50	5.0%	0.0%
55	1.9%	0.0%

Retirement Rate

Annual rates of retirement are as shown below.

Certified Teachers and Other School Employees

Age	<20 YOS	20+ YOS
50 – 57	0%	25%
58	25%	25%
59 – 61	15%	25%
62	30%	30%
63 – 64	15%	25%
65+	100%	100%

Support Professionals

Age	Rates
58	15%
59 – 61	5%
62	25%
63 – 64	15%
65+	100%

Health Care Trend Rates

FYE	Medical	Dental
2013	10.0%	5.0%
2014	9.0%	4.5%
2015	8.0%	4.0%
2016	7.0%	3.5%
2017	6.5%	3.0%
2018	6.0%	3.0%
2010	5.5%	3.0%
2020+	5.0%	3.0%

The initial trend rate was based on the plan's actual experience. The subsequent year trend rates were selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

Per Capita Costs

Annual per capita costs were calculated based on 2012/13 Healthmate Coast to Coast premium rates for retirees under 65 and Blue Cross Plan 65 for retirees over the age of 65, actuarially increased using health index factors and current enrollment. The costs are assumed to increase with health care trend rates. Annual per capita costs are as shown below:

Age	Unisex
50 – 54	$ 5,500
55 – 59	$ 6,400
60 – 64	$ 7,900
65 – 69	$ 6,900
70 – 74	$ 8,200
75+	$ 9,500

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

All retirees are assumed to elect Healthmate Coast to Coast plan upon retirement.

Annual dental per capita cost is $448 and is assumed to increase with dental trend rates.

Explicit Subsidy

The difference between (a) the premium rate and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retired Teacher enrolled in Healthmate Coast to Coast plan with sick leave conversion benefit.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Retiree	$ 460.44	$ 0.00	$ 460.44
Spouse	$ 863.58	$ 0.00	$ 863.58

Implicit Subsidy

The difference between (a) the per capita cost and (b) the premium rate. Below is an example of the monthly implicit subsidies for a 60 – 64 retired Teacher enrolled in Healthmate Coast to Coast plan.

	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 658.33	$ 460.44	$ 197.89
Spouse	$ 658.33	$ 658.33*	$ 0.00

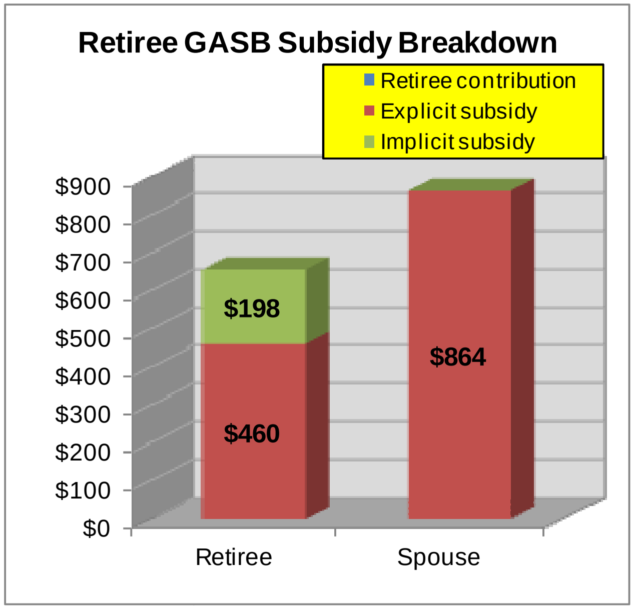
All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.

* Limited to per capita cost

GASB Subsidy Breakdown

Below is a breakdown of the GASB 45 monthly total cost for a 60 – 64 retired Teacher and spouse enrolled in Healthmate Coast to Coast plan.

	Retiree	Spouse
Retiree contribution	$ 0	$ 0
Explicit subsidy	$ 460	$ 864
Implicit subsidy	$ 198	$ 0
Total monthly cost	$ 658	$ 864



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Town of Narragansett

Actives with Coverage	***Single***	***Non-Single***	***Total***	***Avg. Age***	***Avg. Svc***	***Avg. Salary***
Healthmate	38	68	108	41.5	10.2	$ 5,857,349
United Health Plan	1	11	12	48.2	19.3	$ 717,756
Total Actives with Coverage	**39**	**79**	**120**	**42.2**	**11.1**	**$ 6,575,105**

Actives without Coverage*	***Single***	***Non-Single***	***Total***	***Avg. Age***	***Avg. Svc***	***Avg. Salary***
Buyback	N/A	N/A	44	47.2	10.7	$ 2,263,908
Total Actives without Coverage	**N/A**	**N/A**	**44**	**47.2**	**10.7**	**$ 2,263,908**

***** Active employees on buyback are assumed to get the buyback benefit at retirement. They have been included in the GASB valuation.

Inactives with Coverage**	***Single***	***Non-Single***	***Total***	***Avg. Age***
Classic BC	7	5	12	77.5
Healthmate	29	56	85	64.2
Plan 65	2	5	7	63.4
United Health Plan	7	3	10	64.3
Total Inactives with Coverage	**45**	**69**	**114**	**65.6**

** Additionally, there are 10 retirees on buyback. They have been included in the GASB valuation.

Narragansett School System

Actives with Coverage	*Single*	*Non-Single*	*Total*	*Avg. Age*	*Avg. Svc*	*Avg. Salary*
Classic BC	1	7	8	58.4	26.7	$ 534,825
Healthmate	41	142	183	48.6	12.7	$ 11,282,311
Total Actives with Coverage	**42**	**149**	**191**	**49.0**	**13.2**	**$ 11,817,136**

*Actives without Coverage**	*Single*	*Non-Single*	*Total*	*Avg. Age*	*Avg. Svc*	*Avg. Salary*
Total	N/A	N/A	66	49.3	9.2	$ 3,295,466
Total Actives without Coverage	**N/A**	**N/A**	**66**	**49.3**	**9.2**	**$ 3,295,466**

* Active employees who currently have no coverage are assumed not to elect coverage at retirement. They have been excluded from the GASB valuation.

*Inactives with Coverage***	*Single*	*Non-Single*	*Total*	*Avg. Age*
Classic BC	2	0	2	63.7
Healthmate	41	8	49	62.0
Plan 65***	4	0	4	72.6
Total Inactives with Coverage	**47**	**8**	**55**	**62.8**

** There are also 49 retirees who currently have no coverage. They have been excluded from the GASB valuation.
*** No GASB liabilities are generated for the 4 retirees enrolled in Plan 65 as they pay the full cost of coverage.

Active Age-Service Distribution

Town of Narragansett

	Years of Service										
Age	***< 1***	***1 to 4***	***5 to 9***	***10 to 14***	***15 to 19***	***20 to 24***	***25 to 29***	***30 to 34***	***35 to 39***	***40 & up***	***Total***
Under 25		5									5
25 to 29	2	10	3								15
30 to 34		7	9	2							18
35 to 39		3	8	7	3						21
40 to 44	1	6	3	7	5	3					25
45 to 49	2	4	6	3	5	19	2				41
50 to 54	2	3	2	1	4	5					17
55 to 59		4	4	4	2	1	1				16
60 to 64		1	2								3
65 to 69						1					1
70 & up		1				1					2
Total	**7**	**44**	**37**	**24**	**19**	**30**	**3**	**0**	**0**	**0**	**164**

Active Age-Service Distribution

Narragansett School System

	Years of Service										
Age	***< 1***	***1 to 4***	***5 to 9***	***10 to 14***	***15 to 19***	***20 to 24***	***25 to 29***	***30 to 34***	***35 to 39***	***40 & up***	***Total***
Under 25	2	2									4
25 to 29	2	12	1								15
30 to 34		11	5	1							17
35 to 39		2	6	7							15
40 to 44	1	8	8	4	9	1					31
45 to 49		11	8	13	3	3	1				39
50 to 54		6	8	15	9	7	3	1			49
55 to 59		3	12	8	7	11	6	1	1		49
60 to 64		5	5	3	4	7	3		1		28
65 to 69		2	2	2		2				1	9
70 & up				1							1
Total	**5**	**62**	**55**	**54**	**32**	**31**	**13**	**2**	**2**	**1**	**257**

GASB 45 defines several unique terms not commonly employed in the funding of pension and retiree health plans. The definitions of the terms used in the GASB actuarial valuations are noted below.

1. **Actuarial Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

2. **Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided health care benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

3. **Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

4. **Actuarial Present Value** – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

   a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.);
   b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned; and
   c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.

5. **Annual OPEB Cost** – An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

6. **Annual Required Contribution (ARC)** – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

7. **Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

8. **Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

9. **Healthcare Cost Trend Rate** – The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

10. **Implicit Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

11. **Net OPEB Obligation** – The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

12. **Normal Cost** – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

13. **Pay-as-you-go** – A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

14. **Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

15. **Present Value of Future Benefits** – Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

16. **Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8% for year 20W0, then 7.5% for 20W1, and 7% for 20W2 and thereafter, then 8% and 7.5% select rates, and 7% is the ultimate rate.

17. **Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan members.

Appendix A – Comparison of Participant Demographic Information

	7/1/2010	7/1/2012
Active Participants[3]		
Town	163	164
School	262	257
Inactive Participants		
Town	109	114
School	51	55
Average Age for Active		
Town	43.0	43.5
School	49.1	49.1
Average Service for Active		
Town	11.0	11.0
School	11.4	12.2
Average Age for Inactive		
Town	65.9	65.6
School	61.8	62.8

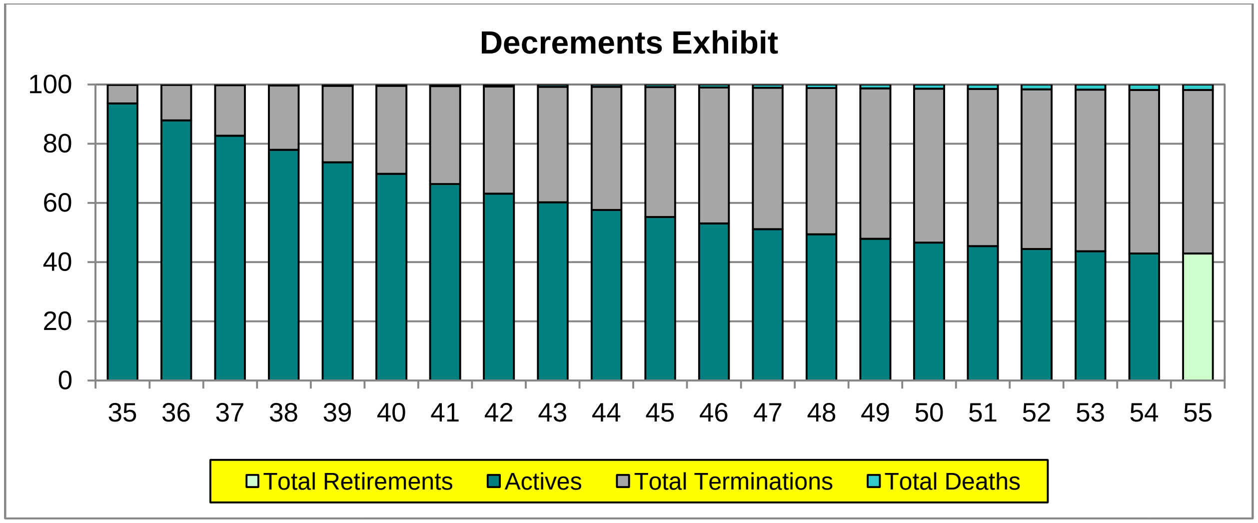
[3] The active participants number above may include active employees who currently have no health care coverage. See Summary of Participants section for an accurate breakdown of active employees with and without coverage.

Appendix B – Decrements Exhibit (Turnover and Mortality Rates)

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. Starting with 100 employees at age 35, the illustrated actuarial assumptions show that 42.949 employees out of the original 100 are expected to retire and could elect retiree health benefits at age 55.

Age	# Remaining Employees	# Deaths per year*	# of Terminations per year*	# of Retirements per year*	Total Decrements
35	100.000	0.077	6.276	0.000	6.353
36	93.647	0.079	5.672	0.000	5.751
37	87.896	0.079	5.127	0.000	5.206
38	82.690	0.080	4.636	0.000	4.716
39	77.974	0.080	4.194	0.000	4.274
40	73.700	0.080	3.796	0.000	3.876
41	69.824	0.080	3.436	0.000	3.516
42	66.308	0.081	3.109	0.000	3.190
43	63.118	0.082	2.811	0.000	2.893
44	60.225	0.084	2.539	0.000	2.623
45	57.602	0.087	2.290	0.000	2.377

Age	# Remaining Employees	# Deaths per year*	# of Terminations per year*	# of Retirements per year*	Total Decrements
46	55.225	0.089	2.058	0.000	2.147
47	53.078	0.092	1.839	0.000	1.931
48	51.147	0.095	1.629	0.000	1.724
49	49.423	0.099	1.425	0.000	1.524
50	47.899	0.102	1.227	0.000	1.329
51	46.570	0.114	1.037	0.000	1.151
52	45.419	0.121	0.856	0.000	0.977
53	44.442	0.130	0.688	0.000	0.818
54	43.624	0.139	0.536	0.000	0.675
55	42.949	0.000	0.000	42.949	42.949

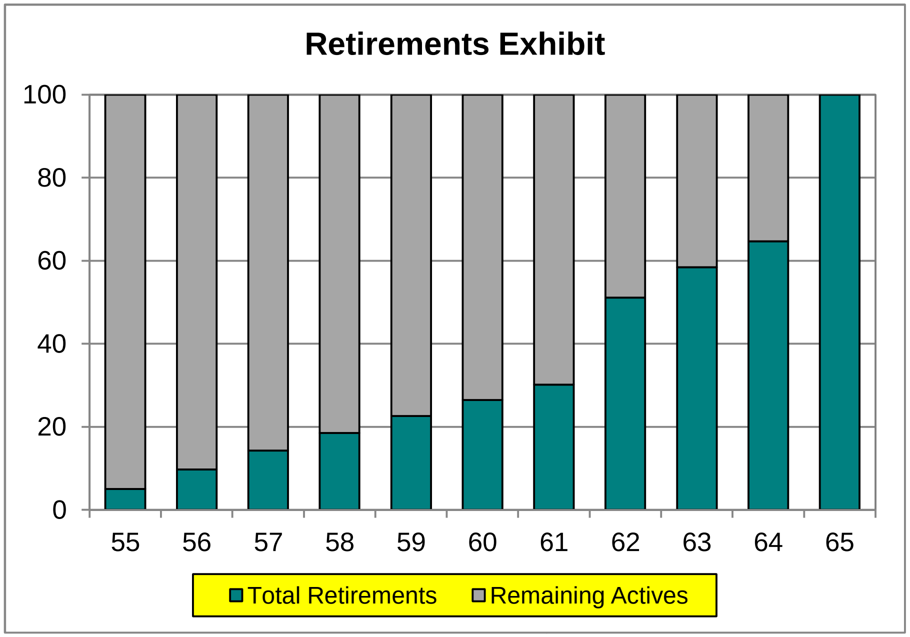


* The above rates are illustrative rates and are not used in our GASB calculations.

Appendix C – Retirement Rates Exhibit

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. The illustrated retirement rates show the number of employees who are assumed to retire annually based on 100 employees age 55 who are eligible for retiree health care coverage. The average age at retirement is 62.0.

Age	Active Employees BOY	Annual Retirement Rates*	# Retirements per year	Active Employees EOY
55	100.000	5%	5.000	95.000
56	95.000	5%	4.750	90.250
57	90.250	5%	4.513	85.738
58	85.738	5%	4.287	81.451
59	81.451	5%	4.073	77.378
60	77.378	5%	3.869	73.509
61	73.509	5%	3.675	69.834
62	69.834	30%	20.950	48.884
63	48.884	15%	7.333	41.551
64	41.551	15%	6.233	35.318
65	35.318	100%	35.318	0.000



* The above rates are illustrative rates and are not used in our GASB calculations.

Appendix D – Illustration of GASB Calculations

The purpose of the illustration is to familiarize non-actuaries with the GASB 45 actuarial calculation process.

I. Facts

1. The employer provides subsidized retiree health coverage worth $100,000 to employees retiring at age 55 with 25 years of service. The employer funds for retiree health coverage on a pay-as-you-go basis.
2. Employee X is age 50 and has worked 20 years with the employer.
3. Retiree health subsidies are paid from the general fund assets which are expected to earn 4.5% per year on a long-term basis.
4. Based on Employee X's age and sex he has a 98.0% probability of living to age 55 and a 95.0% probability of continuing to work to age 55.

II. Calculation of Present Value of Future Benefits

Present Value of Future Benefits represents the cost to finance benefits payable in the future to current and future retirees and beneficiaries, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

	Value	Description
A.	$100,000	Projected benefit at retirement
B.	80.2%	Interest discount for five years = $(1 / 1.045)^5$
C.	98.0%	Probability of living to retirement age
D.	95.0%	Probability of continuing to work to retirement age
E.	$74,666	Present value of projected retirement benefit measured at employee's current age = A x B x C x D

Appendix D – Continued

III. Calculation of Actuarial Accrued Liability

Actuarial Accrued Liability represents the portion of the Present Value of Future Benefits which has been accrued recognizing the employee's past service with the employer. The Actuarial Accrued Liability is a required disclosure in the Required Supplementary Information section of the employer's financial statement.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	20	Current years of service with employer
C.	25	Projected years of service with employer at retirement
D.	$59,733	Actuarial accrued liability measured at employee's current age = A x B / C

IV. Calculation of Normal Cost

Normal Cost represents the portion of the Present Value of Future Benefits allocated to the current year.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	25	Projected years of service with employer at retirement
C.	$2,987	Normal cost measured at employee's current age = A / B

V. Calculation of Annual Required Contribution

Annual Required Contribution is the total expense for the current year to be shown in the employer's income statement.

	Value	Description
A.	$2,987	Normal Cost for the current year
B.	$3,509	30-year amortization (level dollar method) of Unfunded Actuarial Accrued Liability using a 4.5% interest rate discount factor
C.	$292	Interest adjustment = 4.5% x (A + B)
D.	$6,788	Annual Required Contribution = A + B + C

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