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Town of Warren
GASB 45 Financial Report
Alternate Measurement Method

Fiscal Year Ending

June 30, 2012

Revised March 2013

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Certification

This report summarizes the GASB actuarial valuation for the Town of Warren 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 report utilizes assumptions and methodologies from the Alternate Measurement Method as prescribed in GASB 45 and reasonable industry assumptions based on our professional opinion. 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. We are not aware of any material inadequacy in the information provided by the Plan Sponsor. We did not review the source of the information provided and 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 as prescribed in GASB 45 under Alternate Measurement Method. 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

Randy Gomez, FSA, MAAA

Evi Laksana, ASA, MAAA

January 24, 2013

Revised March 13, 2013

Sources of GASB Liabilities and Assets

1. The Town explicitly subsidizes the retiree health care coverage. Refer to Substantive Plan Provisions section for more information on the Town's explicit subsidy.

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.

3. The Town has historically funded its retiree health benefits on a pay-as-you-go basis. Occasionally the Town will make pre-funding contributions to an OPEB Trust if the budget permits.

Summary of Results

Actuarial Accrued Liabilities (AAL)		***As of July 1, 2011***
Current retirees		
Pre-Medicare	$	608,091
Post-Medicare		66,158
Total	$	674,249
Future retirees		
Pre-Medicare	$	3,560,450
Post-Medicare		97,309
Total	$	3,657,759
Total liabilities	$	4,332,008

Explicit Subsidies are created when retirees are not charged the full cost of health care as measured by the premium or premium equivalent rates determined annually by the employer.

Implicit Subsidies are additional employer liabilities when the inherently higher health care costs for retired employees are not directly reflected in the determination of the premium or premium equivalent rates.

Required Supplementary Information	***2010/11***[1]	***2011/12***
Actuarial Accrued Liability as of beginning of period	$ 3,018,423	$ 4,332,008
Actuarial Value of Assets as of beginning of period	(700,000)	(739,870)
Unfunded Actuarial Accrued Liability (UAAL)	**$ 2,318,423**	**$ 3,592,138**
Covered payroll	$ 3,019,456	$ 2,935,090
UAAL as a % of covered payroll	76.8%	122.4%

Annual Required Contribution	***2010/11***[1]	***2011/12***
Normal cost as of beginning of year	$ 139,682	$ 276,249
Amortization of the UAAL for 30 years[2]	236,902	128,293
Total normal cost and amortization payment	$ 376,584	$ 404,542
Interest to end of year	15,063	16,182
Total Annual Required Contribution (ARC)	**$ 391,647**	**$ 420,724**

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.

[1] 2010/11 information shown above is as disclosed in the Town of Warren Notes to Financial Statements for the fiscal year ending June 30, 2011.
[2] Amortization period used for 2010/11 disclosure was 10 years.

Net OPEB Obligation

Net OPEB Obligation	*2010/11*[3]	*2011/12*
ARC as of end of year	$ 391,647	$ 420,724
Interest on Net OPEB Obligation (NOO) to end of year	5,003	43,483
NOO amortization adjustment to the ARC	(12,843)	(40,378)
Annual OPEB cost	$ 383,807	$ 423,829
Total annual employer contribution for pay-go cost (actual)	(58,296)	(100,687)[4]
Total annual employer contribution for pre-funding	0	0
Change in NOO	$ 325,511	$ 323,142
NOO as of beginning of year	761,574	1,087,085
NOO as of end of year	**$ 1,087,085**	**$ 1,410,227**

Income Statement and Balance Sheet Impact

Income Statement and Balance Sheet Impact	*2010/11*[3]	*2011/12*
Annual OPEB Cost (Affects Income Statement)	$ 383,807	$ 423,829
Total Employer Cash Contributions (same as pay –go cost) (Affects Income Statement)	$ 58,296	$ 100,687[4]
Net OPEB Obligation at year-end (Affects Balance Sheet Liability)	$ 1,087,085	$ 1,410,227

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.

[3] 2010/11 information shown above is as disclosed in the Town of Warren Notes to Financial Statements for fiscal year ending June 30, 2011.
[4] 2011/12 annual employer contribution for pay-go cost is the sum of (a) $62,295 in actual premium payments for retirees and (b) $38,392 implicit portion of pay-go costs.

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	$ 739,870	$ 4,332,008	$ 3,592,138	17.1%	$ 2,935,090	122.4%
July 1, 2010	$ 700,000	$ 3,018,423	$ 2,318,423	23.2%	$ 3,019,466	76.8%
July 1, 2009	$ 700,000	$ 3,018,423	$ 2,318,423	23.2%	$ 3,019,466	76.8%

Schedule of Employer Contributions

FYE	*Employer Contributions*	*Annual Required Contribution (ARC)*	*% of ARC Contributed*
	A	*B*	*C = A / B*
June 30, 2012	$ 100,687	$ 420,724	23.9%
June 30, 2011	$ 58,296	$ 391,647	14.9%
June 30, 2010	$ 69,875	$ 391,647	17.8%

Annual OPEB Cost

As of	*Annual OPEB Cost*	*% of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
June 30, 2012	$ 423,829	23.8%	$ 1,410,227
June 30, 2011	$ 383,807	15.2%	$ 1,087,085
June 30, 2010	$ 383,807	18.2%	$ 761,574

Eligibility

All employees are eligible for retiree health care benefits once they meet the Rhode Island Municipal Employees Retirement System (MERS) retirement eligibility requirements:

1. General employees, earlier of:
   a. Age 50 with 20 years of service (reduced pension)
   b. Age 58 with 10 years of service (unreduced pension)
   c. 30 years of service (unreduced pension)
2. Public Safety employees, earlier of:
   a. Age 50 with 20 years of service (reduced pension)
   b. Age 55 with 10 years of service (unreduced pension)
   c. 25 years of service (unreduced pension)

Spouse Benefit

Surviving spouse is eligible for COBRA coverage upon death of the retiree.

Town's Explicit Subsidy

Retirees are eligible for subsidized coverage as noted below:

- Police officers (IBPO) – 4 years of free coverage that can extend past Medicare eligibility.
- Non-union Supervisory Personnel:
  - Hired prior to April 26, 2006 – 3 years of free coverage that can extend past Medicare eligibility
  - Hired on/after April 26, 2006 – 3 years subsidized coverage that can extend past Medicare eligibility. During the subsidy period, the Town will contribute 80% of the premium.
- Town (USW) employees:
  - Hired prior to July 1, 1994 – 3 years of free coverage that can extend past Medicare eligibility.
  - Hired on/after July 1, 1994 – 2 years of free coverage that can extend past Medicare eligibility.
  - Any USW employees who retire at age 65 with 10 years of service are eligible for free lifetime coverage under Plan 65.

At the end of the specified subsidy periods above, all retirees contribute the full cost of coverage.

Free coverage will include both medical and dental benefits.

Retiree Cost Sharing

Retirees contribute the cost of coverage not covered by the Town's explicit subsidy.

Medical Benefit

Same benefit options are available to retirees as active employees. Town of Warren purchases their health insurance through BCBS of Rhode Island and their health plans are operated on a fully-insured arrangement. Their premium rates are determined based on an 80/20 split of the pool-wide and their own claims experience.

BCBS of Rhode Island maintains fund reserves that are held in common. At year end, reserves are evaluated and at times, distributions could be made out to members.

The monthly premiums effective July 1, 2012 are as shown below:

	Retiree	Retiree + Spouse
Plan A (Police)	$ 750.30	$ 1,697.75
Plan B (Town)	$ 659.77	$ 1,618.15
Plan C (Fire)	$ 813.71	$ 1,772.08
Plan D with Vision (Town)	$ 663.67	$ 1,627.89
Plan 65	$ 162.15	N/A
Dental	$ 34.57	$ 104.17

Actuarial valuations involve estimates of the value of reported amounts using assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new assumptions are made about future expectations. These actuarial calculations reflect a long-term perspective. The actuarial assumptions used in this report are as prescribed in GASB 45 under the Alternate Measurement Method.

Measurement Date

June 30, 2012 with results actuarially rolled-back to July 1, 2011 on a “no loss/no gain” basis

Discount Rate

4.0%

Payroll Growth

3.5% (for amortization purposes only)

Inflation Rate

3.0%

Cost Method

Projected Unit Credit with linear proration to decrement

Amortization

Level percentage of pay over thirty years based on an open group (prior valuation used level percentage of pay over ten years).

Employer Funding Policy

Pay-as-you-go cash basis

The Town has established an OPEB Trust but the annual pre-funding decision is made arbitrarily annually depending on budgetary constraints. The last pre-funding contribution made into this Trust was in the 2007/08 fiscal year. The Town plans to make pre-funding contributions to the Trust in future years contingent on any budgetary constraints.

Census Data

Census information was provided by the Plan Sponsor and it was collected in November 2012. This information has been reviewed for reasonableness and no material modifications were made to the data provided.

Mortality

RP-2000 Combined Mortality Table fully generational projected using scale AA

Turnover Rate

Assumption used to project annual 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.

Age	Rates
25	6.8%
35	3.2%
45	1.6%

Disability

None

Retirement Rate

Each general employee is assumed to retire at age 61 or upon meeting the minimum age/service requirement, whichever is later. If the employee is currently over the age of 61 and he has met the minimum age/service requirement, he is assumed to retire immediately.

Each public safety employee is assumed to retire at age 58 or upon meeting the minimum age/service requirement, whichever is later. If the employee is currently over the age of 58 and he has met the minimum age/service requirement, he is assumed to retire immediately.

Per Capita Costs

Annual per capita costs were calculated based on the premium rates actuarially increased using health index factors. The costs are assumed to increase with medical trend rates.

The annual per capita costs by plan are as shown below:

Age	Plan	Per Capita
< 65	Plan A	$ 18,564
< 65	Plan B / D	$ 16,324
< 65	Plan C	$ 20,133
65+	Plan 65	$ 1,946

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 assumed to be $415 increasing with dental trend rates.

Health Care Coverage Election Rate

Active employees with current coverage: 100%
Active employees with no coverage: 0%

Inactive employees with current coverage: 100%

Spousal Coverage

Based on actual data for future and current retirees.

Husbands are assumed to be three years older than wives for future retirees. Actual spouse's age is used for current retirees.

Health Care Trend Rates

FYE	Rates	Dental
2013	10.0%	5.0%
2014	9.5%	4.5%
2015	9.0%	4.0%
2016	8.5%	3.5%
2017	8.0%	3.0%
2018	7.5%	3.0%
2019	7.0%	3.0%
2020	6.5%	3.0%
2021	6.0%	3.0%
2022	5.5%	3.0%
2023	5.0%	3.0%

The initial trend rate was 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.

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 retiree enrolled in Plan B and his spouse in his first year of retirement.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Retiree	$ 660	$ 0	$ 660
Spouse	$ 958	$ 0	$ 958

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 retiree under age 65 and his spouse.

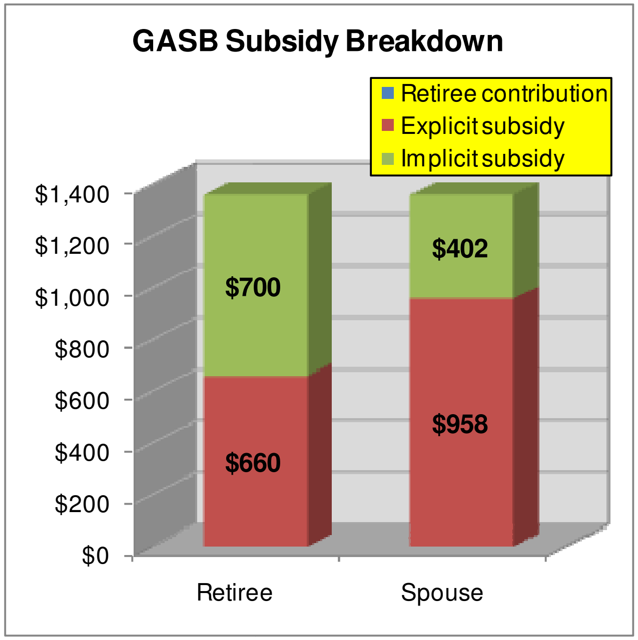
	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 1,360	$ 660	$ 700
Spouse	$ 1,360	$ 958	$ 402

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 retiree under age 65 enrolled in Plan B and his spouse in his first year of retirement.

	Retiree	Spouse
Retiree contribution	$ 0	$ 0
Explicit subsidy	$ 660	$ 958
Implicit subsidy	$ 700	$ 402
Total monthly cost	$ 1,360	$ 1,360



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Active Employees with Coverage	*Single*	*Family*	*Total*	*Avg. Age*	*Avg. Svc*	*Total Salary*
Plan A (Police)	3	15	18	42.3	14.3	$ 991,661
Plan B (Town)	5	30	35	44.0	12.1	$ 1,439,113
Plan C (Fire)	0	1	1	65.4	17.0	$ 63,634
Plan D with Vision (Town)	1	0	1	72.7	32.9	$ 39,187
Total active with coverage	**9**	**46**	**55**	**44.4**	**13.3**	**$ 2,533,595**

Active Employees without Coverage[5]	*Single*	*Family*	*Total*	*Avg. Age*	*Avg. Svc*	*Total Salary*
Total			**8**	**43.1**	**13.0**	**$ 401,495**

Retired Employees	*Single*	*Family*	*Total*	*Avg. Age*
Plan A (Police)	0	2	2	55.9
Plan B (Town)	2	1	3	63.9
Plan 65	2	0	2	81.2
Total retirees with coverage	**4**	**3**	**7**	**66.5**

[5] Active employees who currently have no coverage are assumed not to elect coverage with the Town at retirement. Two of these eight employees have dental coverage and they are assumed to elect dental coverage only at retirement.

Active Age-Service Distribution

	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		1									1
25 to 29		1	1								2
30 to 34		4	5	2							11
35 to 39		1	3	6	1						11
40 to 44		1	2	3		2					8
45 to 49			2	2	3	3	1				11
50 to 54	1		2	1	2	3	1	1			11
55 to 59					1		1				2
60 to 64			2	1		1					4
65 to 69					1						1
70 & up								1			1
Total	**1**	**8**	**17**	**15**	**8**	**9**	**3**	**2**	**0**	**0**	**63**

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, turnover, 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 member.