nyhart

Town of Lincoln, Rhode Island
GASB 45 Financial Report

Fiscal Year Ending

June 30, 2013

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Certification

This report summarizes the GASB actuarial valuation for the Town of Lincoln, Rhode Island (including Lincoln School Department) for the 2012/13 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

Randy Gomez, FSA, MAAA

Evi Laksana, ASA, MAAA

October 9, 2013

Retiree health eligibility requirements for School employees (Teachers, Administrators, and Support Staff) have changed due to the enactment of Article 7 in 2009 (for Rhode Island Employees Retirement System (RI ERS) members only) and the RIRSA in 2011 (for RI ERS and Rhode Island Municipal Employees Retirement System (RI MERS) members). For many employees, this change has delayed the earliest date an employee could retire. Refer to Substantive Plan Provisions section for the complete retiree health benefits eligibility requirements. The School's liabilities have been reduced due to this updated eligibility requirements.

In the prior valuations, liabilities for Support Staff were not valued. They have been included in this year's valuation and only 5% of active Support employees are assumed to elect coverage at retirement. This change increases the School's liabilities slightly.

Several actuarial methods and assumptions have been updated since the last full valuation, which was for the fiscal year ending June 30, 2011:

1. Discount rate has been increased from 4.5% to 7.5% due to the establishment of a qualified trust for funding retiree health benefits. Annually, the Town and School will deposit the difference between the full Annual Required Contribution and the pay-go costs into this trust. The trust is currently invested through an Ocean State Investment Pool at Fidelity with assets primarily invested in money market-type investment class with a very low rate of return. The Town is in the process of setting up an Investment Board that will oversee the trust's investment in a more balanced portfolio of bonds, equities, and others that is expected to earn at least 7.5% long-term rate of return (net of expenses).

2. Mortality assumption has been updated as follows:
   a. Healthy retirees: from RP-2000 Combined Mortality Table projected to 2010 using scale AA to RP-2000 Combined Mortality Table fully generational using scale AA
   b. Disabled retirees: from RP-2000 Combined Mortality Table projected to 2010 using scale AA set forward seven years to RP-2000 Combined Mortality Table projected to 2020 using scale AA set forward seven years.

   This change created a slight increase in liabilities for both the Town and the School.

3. Retirement and termination rates have been updated to be consistent with the most recent assumption used in the RI ERS and RI MERS actuarial valuations as of June 30, 2012. This change combined created an increase in liabilities for both the Town and the School.

4. Medical trend rates have been rest to the same initial rates used in the last valuation and the ultimate rate was increased from 4.5% to 5.0%. Comparison of actual and expected trend rates is as shown below. This change created an increase in liabilities.

FYE	Current Actual	Prior Expected
2012	N/A	9.0%
2013	N/A	8.5%
2014	9.0%	8.0%
2015	8.5%	7.5%
2016	8.0%	7.0%
2017	7.5%	6.5%

FYE	Current Actual	Prior Expected
2018	7.0%	6.0%
2019	6.5%	5.5%
2020	6.0%	5.0%
2021	5.5%	4.5%
2022	5.0%	4.5%

Sources of GASB Liabilities and Assets

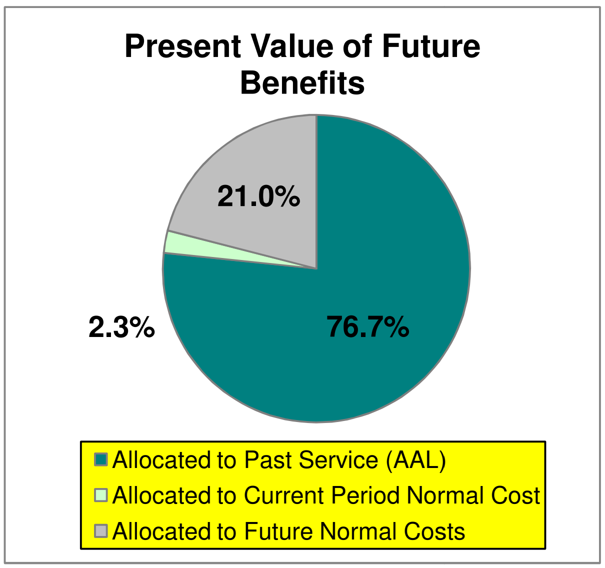
1. The Town and School explicitly subsidize retiree health coverage. Refer to Substantive Plan Provisions for more information on the Town and School explicit subsidy.

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 and School.

3. The Town and School have historically funded its retiree health benefits on a pay-as-you-go basis. Beginning in 2011/12 fiscal year, the Town and School have started paying for the difference between the full Annual Required Contribution and pay-go costs into a trust dedicated to fund retiree health benefits.

Below is the breakdown of Present Value of Future Benefits (PVFB) allocated for past, current, and future service. Page 4 shows the GASB results for the fiscal year beginning July 1, 2012 based on the Projected Unit Credit cost method for both the Town and School combined.

	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*
	A	***B***	***C***	***D = A – B – C***
As of 7/1/2012	$ 20,583,821	$ 15,778,660	$ 481,644	$ 4,323,517



PVFB is the amount needed as of July 1, 2012 to fully fund the Town'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, 2012. This amount is a required disclosure in the Required Supplementary Information section.

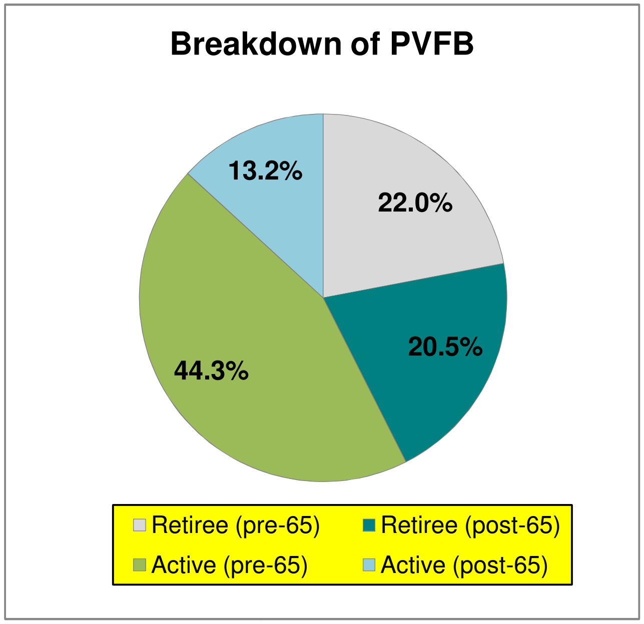
NC is the portion of actuarial present value of retiree health care benefits and expenses allocated to 2012/13 by the actuarial cost method (Projected Unit Credit).

Summary of Results

All results shown in subsequent pages are for combined Town and School.

1. Present Value of Future Benefits (PVFB)

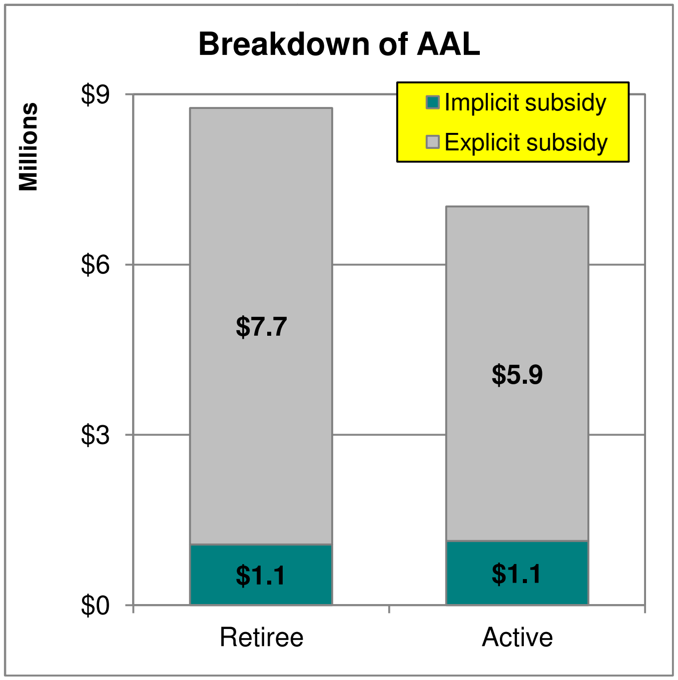
	As of July 1, 2010	*As of July 1, 2012*
Current retirees		
Explicit (Pre-Medicare)	$ 4,739,623	$ 3,459,905
Implicit (Pre-Medicare)	1,478,523	1,069,748
Post-Medicare	6,408,853	4,229,036
Total	$ 12,626,999	$ 8,758,689
Future retirees		
Explicit (Pre-Medicare)	$ 14,174,483	$ 7,195,714
Implicit (Pre-Medicare)	4,384,600	1,916,413
Post-Medicare	7,200,622	2,713,005
Total	$ 25,759,705	$ 11,825,132
Total PVFB	$ 38,386,704	$ 20,583,821
Discount rate	4.50%	7.50%



Summary of Results – Continued

2. Actuarial Accrued Liabilities (AAL)

	As of July 1, 2010	*As of July 1, 2012*
Current retirees		
Explicit (Pre-Medicare)	$ 4,739,623	$ 3,459,905
Implicit (Pre-Medicare)	1,478,523	1,069,748
Post-Medicare	6,408,853	4,229,036
Total	$ 12,626,999	$ 8,758,689
Future retirees		
Explicit (Pre-Medicare)	$ 7,453,496	$ 4,279,371
Implicit (Pre-Medicare)	2,355,632	1,130,029
Post-Medicare	3,805,782	1,610,571
Total	$ 13,614,910	$ 7,019,971
Total liabilities	$ 26,241,909	$ 15,778,660
Discount rate	4.50%	7.50%



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.

3. Income Statement and Balance Sheet Impact

	2011/12	*2012/13*
Annual OPEB Cost (Affects Income Statement)	$ 2,181,418	$ 1,506,039
Total Employer Cash Contributions[1] (same as pay -go cost) (Affects Income Statement)	$ 762,617	$ 1,367,621
Net OPEB Obligation at year-end (Affects Balance Sheet Liability)	$ 4,700,021	$ 4,383,439

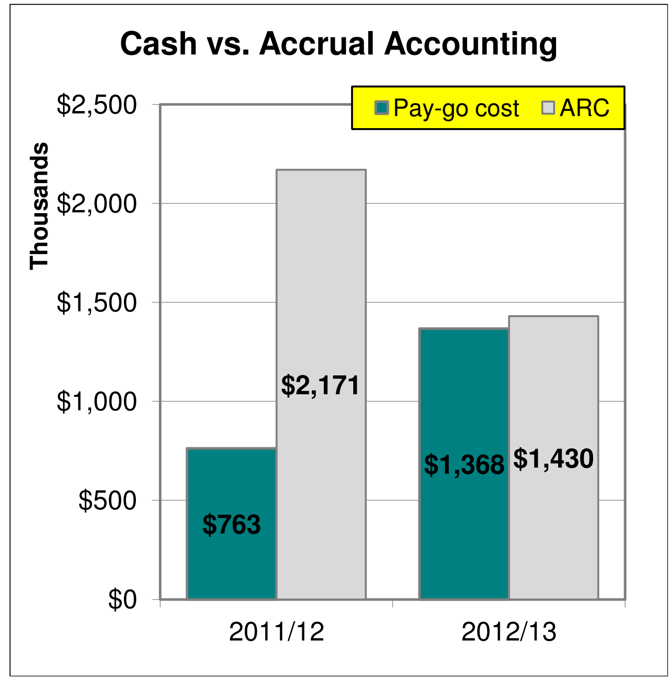
Implicit Subsidies are additional employer liabilities when the inherently higher health care costs for retired employees are not directly reflected in the determination of the premium or premium equivalent rates.

[1] Includes Plan Sponsor's additional pre-funding contributions into the OPEB Trust.

Discount Rate	4.5%	7.5%

Required Supplementary Information	***2011/12*[2]**	***2012/13***
Actuarial Accrued Liability as of beginning of period	$ 26,241,909	$ 15,778,660
Actuarial Value of Assets as of beginning of period	0	(280,005)
Unfunded Actuarial Accrued Liability (UAAL)	**$ 26,241,909**	**$ 15,498,655**
Covered payroll	N/A	$ 29,752,013
UAAL as a % of covered payroll	N/A	52.1%

Annual Required Contribution	***2011/12*[1]**	***2012/13***
Normal cost as of beginning of year	$ 1,075,085	$ 481,644
Amortization of the UAAL	1,002,126	848,822
Total normal cost and amortization payment	$ 2,077,211	$ 1,330,466
Interest to end of year	93,474	99,785
Total Annual Required Contribution (ARC)	**$ 2,170,685**	**$ 1,430,251**



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.

[2] Based on GASB 45 actuarial valuation report for fiscal year ending June 30, 2011, as disclosed in the Town's Basic Financial Statements for fiscal year ending June 30, 2012.

Net OPEB Obligation

Net OPEB Obligation	2011/12	2012/13
ARC as of end of year	$ 2,170,685	$ 1,430,251
Interest on Net OPEB Obligation (NOO) to end of year	94,824	352,502
NOO amortization adjustment to the ARC	(84,091)	(276,714)
Annual OPEB cost	$ 2,181,418	$ 1,506,039
Total annual employer contribution for pay-go cost[3]	(762,617)	(769,780)
Total annual employer contribution for pre-funding	0	(597,841)
Change in NOO	$ 1,418,801	$ 138,418
NOO as of beginning of year	3,281,220	4,700,021
NOO as of end of year	**$ 4,700,021**	**$ 4,838,439**

Asset Reconciliation

Asset Reconciliation	2011/12	2012/13
Asset as of beginning of year	N/A	$ 280,005
Annual employer contributions for pay-go costs[3]	N/A	0
Annual employer trust contributions for pre-funding	N/A	597,841
Benefit payments[4]	N/A	0
Investment income net of expenses	N/A	497
Asset as of end of year	$ 280,005	$ 878,343

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] 2011/12 annual employer contribution for pay-go cost is as disclosed in the Town's Basic Financial Statement for fiscal year ending June 30, 2012. For 2012/13 fiscal year, the Town spent $384,659 and the School spent $385,121 for retiree health benefits.
[4] Employer contributions for pay-go costs are being paid from the General Fund, not from the OPEB Trust.

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, 2012	$ 280,005	$ 15,778,660	$ 15,498,655	1.8%	$ 29,752,013	52.1%
July 1, 2011	$ -	$ 26,241,909	$ 26,241,909	0.0%	N/A	N/A
July 1, 2010	$ -	$ 26,241,909	$ 26,241,909	0.0%	N/A	N/A

Schedule of Employer Contributions

FYE	*Employer Contributions*	*Annual Required Contribution (ARC)*	*% of ARC Contributed*
	A	*B*	*C = A / B*
June 30, 2013	$ 1,367,621	$ 1,430,251	95.6%
June 30, 2012	$ 762,617	$ 2,170,685	35.1%
June 30, 2011	$ 1,007,394	$ 2,170,685	46.4%

Historical Annual OPEB Cost

FYE	*Annual OPEB Cost*	*% of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
June 30, 2013	$ 1,506,039	90.8%	$ 4,838,439
June 30, 2012	$ 2,181,418	35.0%	$ 4,700,021
June 30, 2011	$ 2,181,418	46.2%	$ 3,281,220

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

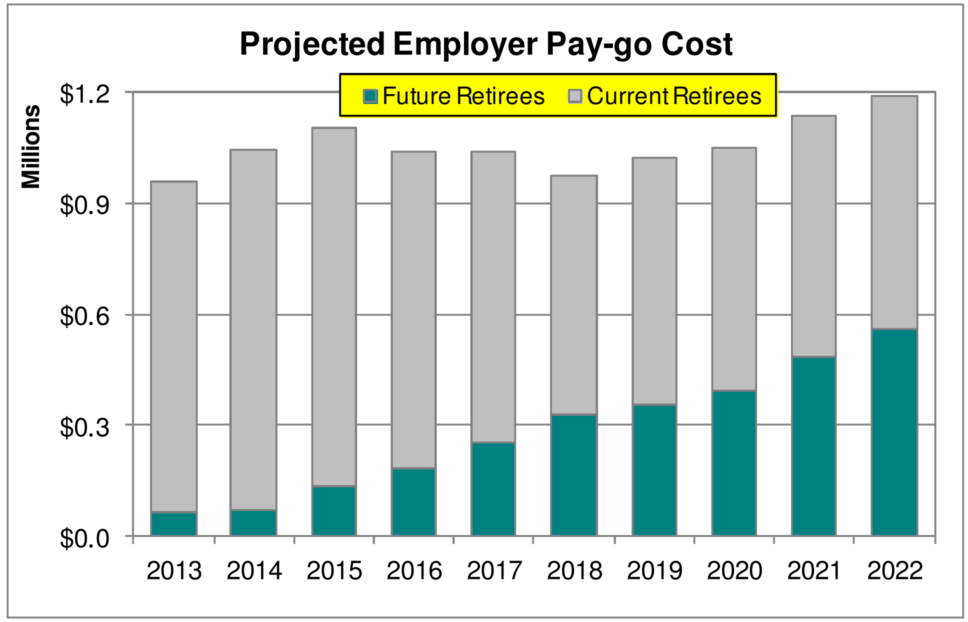
- Increases in AAL when actual premium rates increase more than expected. A liability decrease occurs when premium rates increase less than expected.
- Increases in AAL when more new retirements occur than expected or fewer terminations occur than anticipated. Liability decreases occur when the opposite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

	2012/13
Actuarial Accrued Liability as of beginning of year[5]	$ 15,778,660
Normal cost as of beginning of year	481,644
Expected benefit payments during the year	(960,329)
Interest adjustment to end of year	1,184,162
Expected Actuarial Accrued Liability as of end of year	$ 16,484,137
Actuarial (gain) / loss	0
Actual Actuarial Accrued Liability as of end of year	$ 16,484,137

[5] The actuarial accrued liability was rolled back to the beginning of year on a no gain/loss basis.

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.

FYE	*Future Retirees*	*Current Retirees*	*Total*
2013	$ 64,603	$ 895,726	$ 960,329
2014	$ 70,417	$ 976,341	$ 1,046,758
2015	$ 133,871	$ 968,812	$ 1,102,683
2016	$ 183,264	$ 855,496	$ 1,038,760
2017	$ 255,991	$ 781,233	$ 1,037,224
2018	$ 328,259	$ 645,914	$ 974,173
2019	$ 357,730	$ 665,442	$ 1,023,172
2020	$ 394,431	$ 657,269	$ 1,051,700
2021	$ 483,328	$ 650,437	$ 1,133,765
2022	$ 559,482	$ 629,515	$ 1,188,997



Eligibility

Town Police Officers	Town police officers are eligible for lifetime retiree health benefits at 20 years of service with mandatory retirement at 25 years of service. There is no age requirement to get retiree health benefits.
Town Employees	Town general employees do not have access to retiree health benefits other than for temporary COBRA coverage.
School Teachers/Administrators	Certified Teachers and certain Administrators positions are eligible for retiree health benefits until Medicare eligibility once they meet the retirement eligibility requirements of Rhode Island Employees Retirement System (RI ERS).
School Support Staff	Support staff employees are eligible for retiree health benefits temporary to Medicare eligibility once they meet the retirement eligibility requirements of Rhode Island Municipal Employees Retirement System (RI MERS).

RI ERS Eligibility Requirements

RI ERS eligibility requirements is the earlier of each employee's (a) Article 7 or (b) RIRSA eligibility dates which vary by Schedules summarized below:

Schedules	Vested with 10 years of contributing service credit as of 7/1/2005	Eligible to retire as of 9/30/2009
A	Y	Y*
B	N	Y**
AB	Y	N
B1	N	N
B2	Employees that became a member of RI ERS after 9/30/2009	

* Schedule A members were eligible to retire as of 9/30/2009 if they had (i) 28 years of service as of 9/30/2009 or (ii) had 10 years of contributing service and were age 60 as of 9/30/2009.
** Schedule B members were eligible to retire as of 9/30/2009 if they had 10 years of contributing service and were age 65 as of 9/30/2009.

RI ERS Eligibility Requirements (Continued)

Article 7 Eligibility Date
There are no changes to Schedule A and Schedule B members retirement eligibility dates. These employees may retire at any time once they met the prior RI ERS eligibility rules. The prior RI ERS eligibility rules are:

- Schedule A – earlier of (i) 28 years of service or (ii) age 60 with 10 years of contributing service.
- Schedule B – earlier of (i) age 65 with 10 years of contributing service or (ii) age 59 with 29 years of contributing service.

Minimum retirement age under Article 7 for Schedule AB and B1 members is 62 with “proportional downward adjustment” toward an earlier retirement age based on years of service as of 9/30/2009 (referred to as “frozen service credit”).

Schedule B2 members minimum retirement age under Article 7 is age 62 without “proportional downward adjustment” toward an earlier retirement age.

RIRSA Eligibility Date
Employees with less than five years of contributing service credit on 6/30/2012 may retire at the Social Security normal retirement age (not higher than 67).

For employees with at least five years of contributing service credit on 6/30/2012, minimum retirement age is 62 with “proportional downward adjustment” toward an earlier retirement date based on years of service prior to 7/1/2012, but not earlier than 59.

Employees with at least 10 years of contributing service credit on 6/30/2012 may retire at their Article 7 eligibility date if they continue to work and contribute until that date. If they are within five years of reaching RIRSA retirement eligibility date and have at least 20 years of service, they may retire at any time.

Public school teachers may retire with a reduced pension if they have 20 years of service credit and are within five years of their RIRSA retirement date.

MERS Eligibility Requirements

Employees eligible to retire as of 7/1/2012 are not impacted by the new eligibility requirements described below. Prior to 7/1/2012, employees were eligible to retire at the earlier of: (i) age 58 with 10 years of service credit or (ii) 30 years of service (no age requirement).

For employees who are not eligible to retire as of 7/1/2012:

a) Members with less than five years of contributing service credit on 6/30/2012 may retire at their Social Security normal retirement age.
b) Members with at least five years of contributing service credit on 6/30/2012 may retire at an individually determined age, which is the result of interpolating the member's prior Retirement Date (described in previous paragraph) and the retirement age applicable to members hired after 6/30/2012 (described in item (a) above).
c) Members with at least ten years of contributing service credit on 6/30/2012 may retire at their prior Retirement Date (described in previous paragraph) if they continue to work and contribute until that date.

All members who are within five years of reaching their retirement eligibility date (described in the paragraphs above) may retire at any time if they have at least 20 years of service.

Spouse Benefit

Town Police Officers

Upon death of the retiree or active employee (regardless of whether he is eligible to retire or not) the spousal coverage will revert to COBRA.

School Spouses

Upon death of the retiree or active employee (regardless of whether he is eligible to retire or not) the spousal coverage will revert to COBRA.

Explicit Subsidy

Town Police Officers

Retired police officers receive 100% of their premiums, individual or family, paid for by the Town for life. Officers who become disabled in the line of duty are also eligible for the same benefit.

School Teachers/Administrators

The school will pay a percentage of premium for retired teachers and administrators based on years of service at retirement as shown below.

Years of Service at Retirement	% of Premium Paid by the School
0 – 9	Not eligible
10 – 14	0%
15	50%
16	60%
17	70%
18	80%
19	90%
20 +	100%

The subsidy percentage above applies to individual coverage only. Spouses are allowed in the plan but retiree pays the full incremental cost of spouse and dependent coverage.

Support Staff

None

Retiree Contributions

Retiree contributes the portion of premium rates not covered by the Town and School explicit subsidy.

Medical Benefit

Same benefit options are available to retirees as active employees. The health plans are self-insured. As of July 1, 2008 retired teachers may only choose HealthMate. Some current retired teachers can remain in the Classic plan at retirement.

The 2013/14 monthly premiums by plan effective on July 1, 2013 are as shown below.

Town Police	Single	Family
Healthmate C2C	$ 582.30	$ 1,402.76
Classic	$ 639.19	$ 1,539.81
Plan 65 with rx	$ 632.63	N/A

School	Single	Family
Teachers – Healthmate C2C	$ 607.99	$ 1,500.54
Teachers – Classic	$ 655.14	$ 1,616.90
Support – Healthmate C2C	$ 613.67	$ 1,514.55
Support – Classic	$ 661.89	$ 1,633.55
United	$ 732.07	$ 1,805.93

Life Insurance

Town Police — None

School — Retirees pay the full cost of life insurance 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.

Several actuarial methods and assumptions have been updated since the last full valuation, which was for the fiscal year ending June 30, 2011. Refer to Actuary's Notes section for complete information on these changes. For current year valuation, we have updated the per capita costs. We expect to update health care trend rates and per capita costs in the next full valuation, which will be for the fiscal year ending June 30, 2015.

Measurement Date

June 30, 2013; with results actuarially rolled-back to July 1, 2012 on a "no loss/no gain" basis

Discount Rate

7.5% fully-funded

Inflation Rate

3.0% per year

Payroll Growth

3.5% per year (used for amortization purposes only)

Cost Method

Projected Unit Credit with linear proration to decrement.

Amortization

Level percent of pay amount over thirty years based on an open group

Census Data

Census information is provided by the Town and School and it was collected as of August 2013. This information has been reviewed for reasonableness and no material modifications are made to the census data.

Mortality

Healthy retirees: RP-2000 Combined Mortality Table fully generational using scale AA
Disabled retirees: RP-2000 Combined Mortality Table projected to 2020 using scale AA set forward seven years

Disability Rate

Town Police Officers

Sample annual disability rates are as shown below. These rates are consistent with the disability assumption used in the State Police Retirement actuarial valuation for the fiscal year ending June 30, 2012. 75% of disabilities are assumed to be line-of-duty.

Age	Rate
25	0.17%
35	0.29%
45	0.72%
55	1.21%

School Employees

None

Termination Rate

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility under their respective pension plan.

Town Police Officers

None; consistent with the assumption used in the State Police Retirement actuarial valuation for the fiscal year ending June 30, 2012.

School Employees

Sample annual withdrawal rates are as shown below. These rates are consistent with the termination assumption used in the Employees' Retirement System and Municipal Employees' Retirement System actuarial valuations for the fiscal year ending June 30, 2012.

	Teachers / Administrators		Support Staff	
Service	**Male**	**Female**	**Male**	**Female**
0	17.0%	8.9%	17.5%	18.0%
5	2.9%	4.6%	5.5%	5.8%
10	1.2%	2.3%	2.6%	2.6%
15	1.2%	1.2%	2.0%	1.6%
20	0.9%	0.6%	1.8%	1.1%
24	0.9%	0.4%	0.4%	0.0%

Retirement Rate

Town Police Officers

Annual rates of retirement are as shown below. These rates are consistent with the retirement assumption used in the State Police Retirement actuarial valuation for the fiscal year ending June 30, 2012.

Service	Rate
20	25.0%
21	15.0%
22	10.0%
23	20.0%
24	30.0%
25	100.0%

Retirement Rate – Continued

School Teachers/Administrators

For members who reach 28 years of service before age 60, service-based rates are used. For members who reach age 60 before 28 years of service, age-based rates are used. This assumption is consistent with the retirement assumption used in the Employees' Retirement System actuarial valuation for fiscal year ending June 30, 2012.

Because of the enactment of Article 7 in 2009 and the RIRSA in 2011, the retirement assumption was modified for members whose retirement ages were delayed. Members who would have been assumed to retire under the rules in effect before the enactment of the provision changes are assumed to retire when first eligible for an unreduced benefit. This demand is recognized by adding a 10% probability for every year the member has been deferred.

Male				Female			
All ages		< 28 YOS		All ages		<28 YOS	
Service	Rate	Age	Rate	Service	Rate	Age	Rate
28	17.5%	60	10.0%	28	20.0%	60	15.0%
29	13.0%	61	5.0%	29	15.0%	61	10.0%
30	13.0%	62	17.5%	30	15.0%	62	20.0%
31	13.0%	63	15.0%	31	15.0%	63	15.0%
32	13.0%	64	15.0%	32	15.0%	64	15.0%
33	17.5%	65	20.0%	33	15.0%	65	20.0%
34	17.5%	66	17.5%	34	15.0%	66	25.0%
35	40.0%	67	17.5%	35	40.0%	67	20.0%
36	35.0%	68	17.5%	36	30.0%	68	20.0%
37	35.0%	69	17.5%	37	30.0%	69	20.0%
38	35.0%	70	17.5%	38	30.0%	70	20.0%
39	35.0%	71	17.5%	39	30.0%	71	20.0%
40	100.0%	72	17.5%	40	100.0%	72	20.0%
		73	17.5%			73	20.0%
		74	17.5%			74	20.0%
		75	100.0%			75	100.0%

Retirement Rate – Continued

School Support Staff

For members who reach 30 years of service before age 58, service-based rates are used. For other members, age-based rates are used instead.

Because of the enactment of RIRSA in 2011, the retirement assumption was modified for members not eligible to retire by July 1, 2012. Members who would have been assumed to retire at an earlier age under the rules in effect before the enactment of the provision changes are assumed to retire when first eligible for an unreduced benefit. This demand is recognized by adding a 10% probability for every year the member has been deferred.

YOS	Male	Female
30	30%	30%
31	30%	25%
32 – 34	25%	10%
35	25%	15%
36	25%	20%
37	25%	25%
38	35%	25%
39	50%	25%
40	100%	100%

Age	Male	Female
58	12%	12%
59 – 61	10%	10%
62	30%	20%
63 – 64	20%	15%
65	20%	20%
66 – 68	25%	25%
69	30%	25%
70 – 74	30%	20%
75+	100%	100%

Health Care Coverage Election Rate

Town police officers: 100%
School employees with 10 to 14 years of service and current coverage: 20%
School employees with 15 to 16 years of service and current coverage: 80%
School employees with 17 to 18 years of service and current coverage: 90%
School employees with 19 or more years of service and current coverage: 100%
School support staff with current coverage: 5%
School employees with no coverage: 0%

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

Spousal Coverage

Spousal coverage is based on actual data. Town Police Officers are assumed to maintain current coverage levels.

Husbands are assumed to be three years older than wives. Actual spousal age is used for current retirees.

Per Capita Costs

Annual per capita costs were calculated based on the 2013/14 premium rates by plan actuarially increased using health index factors and current enrollment. The costs are assumed to increase with health care trend rates. Annual per capita costs by plan are as shown below:

	Police Healthmate		Police Classic	
Age	**Male**	**Female**	**Male**	**Female**
< 55	$ 7,000	$ 7,900	$ 7,700	$ 8,700
55 – 59	$ 9,100	$ 8,800	$ 10,000	$ 9,700
60 – 64	$ 11,600	$ 10,400	$ 12,700	$ 11,400

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.

	Teachers/Admin Healthmate		Support Staff Healthmate	
Age	**Male**	**Female**	**Male**	**Female**
< 55	$ 7,300	$ 8,200	$ 7,900	$ 9,000
55 – 59	$ 9,500	$ 9,200	$ 10,300	$ 10,000
60 – 64	$ 12,100	$ 10,900	$ 13,200	$ 11,900

	Town Plan 65	
Age	**Male**	**Female**
65 – 69	$ 5,500	$ 5,500
70 – 74	$ 6,600	$ 6,600
75+	$ 7,600	$ 7,600

Employees are assumed to elect at retirement the same plan as their current active health plan. All School retirees are assumed to elect Healthmate plan at retirement.

Health Care Trend Rates

FYE	Rates	FYE	Rates
2014	9.0%	2019	6.5%
2015	8.5%	2020	6.0%
2016	8.0%	2021	5.5%
2017	7.5%	2022+	5.0%
2018	7.0%		

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.

Employer Funding Policy

The Town and School will contribute annually the difference between the Annual Required Contribution and pay-go costs into a qualified trust.

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 police under 65 enrolled in the Healthmate C2C plan.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Retiree	$ 582.30	$ 0.00	$ 582.30
Spouse	$ 820.46	$ 0.00	$ 820.46

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 male retired police enrolled in the Healthmate C2C plan.

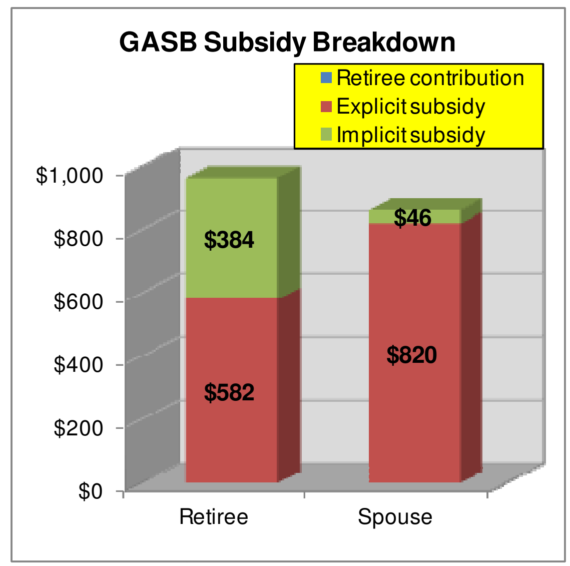
	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 966.67	$ 582.30	$ 384.37
Spouse*	$ 866.67	$ 820.46	$ 46.21

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 male retired police and his enrolled in Healthmate C2C plan.

	Retiree	Spouse
Retiree contribution	$ 0.00	$ 0.00
Explicit subsidy	$ 582.30	$ 820.46
Implicit subsidy	$ 384.37	$ 46.21
Total monthly cost	$ 966.67	$ 866.67



Town Police Officers

Actives with coverage	*Single*	*Family*	*Total*	*Avg. Age*	*Avg. Svc*	*Salary*
Healthmate C2C	9	26	35	38.7	11.4	$ 1,971,528
Actives without coverage[6]			**1**	**49.0**	**20.5**	**$ 57,091**

Retirees with coverage	*Single*	*Family*	*Total*	*Avg. Age*
Healthmate C2C	1	12	13	57.5
Classic	2	6	8	65.7
Plan 65[7]	13	1	14	74.8
Total retirees with coverage	**16**	**19**	**35**	**66.3**

School

Actives with coverage	*Single*	*Family*	*Total*	*Avg. Age*	*Avg. Svc*	*Salary*
Healthmate C2C	60	271	331	47.7	12.9	$ 22,462,711
Classic	2	1	3	51.9	18.8	$ 216,092
United		7	7	47.2	10.9	$ 352,016
Total actives with coverage	**62**	**279**	**341**	**47.7**	**12.9**	**$ 23,030,819**
Actives without coverage			**60**	**45.0**	**13.2**	**$ 4,692,575**

Retirees with coverage	*Single*	*Family*	*Total*	*Avg. Age*
Healthmate C2C	47	1	48	62.0
Classic	10		10	62.3
Total retirees with coverage	**57**	**1**	**58**	**62.1**

[6] Actives without coverage are assumed not elect coverage with the Town / School at retirement. They have been excluded from the GASB valuation.
[7] Plan 65 enrollment is on an individual basis so the 13 single enrollment figure above includes spouse of retiree. The one retiree enrolled in Plan 65 with Family coverage has a covered spouse who is under the age of 65.

Active Age-Service Distribution

Town Police Officers (including active employees without coverage)

	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											0
25 to 29	2	3	1								6
30 to 34		1	3	2							6
35 to 39			1	3							4
40 to 44	1		1	6	2	2					12
45 to 49			1	1	2	2					6
50 to 54						1	1				2
55 to 59											0
60 to 64											0
65 to 69											0
70 & up											0
Total	**3**	**4**	**7**	**12**	**4**	**5**	**1**	**0**	**0**	**0**	**36**

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Active Age-Service Distribution

School (including active employees without coverage)

	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	5	3	5								13
30 to 34	1	3	18	9							31
35 to 39	2	1	21	25	5						54
40 to 44	6	7	15	17	23	2					70
45 to 49	4	3	16	16	16	9					64
50 to 54	2	3	15	20	15	11	7	2			75
55 to 59	2	5	5	19	18	8	3	0			60
60 to 64	1		2	4	7	10		1			25
65 to 69			1	1	2	2					6
70 & up			1						1		2
Total	**23**	**26**	**99**	**111**	**86**	**42**	**10**	**3**	**1**	**0**	**401**

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

Appendix A – GASB Results by Location

Below is the summary of the GASB results for fiscal year ending June 30, 2013 based on the Projected Unit Credit cost method with an unfunded discount rate of 7.5%.

Required Supplementary Information	*Total*	*Town*	*School*
Actuarial Accrued Liability as of beginning of year	$ 15,778,660	$ 11,388,103	$ 4,390,557
Actuarial Value of Assets as of beginning of year	(280,005)	(280,005)	0
Unfunded Actuarial Accrued Liability (UAAL)	**$ 15,498,655**	**$ 11,108,098**	**$ 4,390,557**
Covered payroll	$ 29,752,013	$ 2,028,619	$ 27,723,394
UAAL as a % of covered payroll	52.1%	547.6%	15.8%

Annual Required Contribution	*Total*	*Town*	*School*
Normal cost as of beginning of year	$ 481,644	$ 361,047	$ 120,597
Amortization of the UAAL for 30 years	848,822	608,362	240,460
Total normal cost and amortization payment	$ 1,330,466	$ 969,409	$ 361,057
Interest to end of year	99,785	72,706	27,079
Total Annual Required Contribution (ARC)	**$ 1,430,251**	**$ 1,042,115**	**$ 388,136**

Appendix B – Comparison of Participant Demographic Information

	As of June 30, 2011	As of June 30, 2013
Active Participants[8]		
Town Police	36	35
School[9]	320	341
Retired Participants		
Town Police	37	35
School	76	58
Average Age for Active		
Town Police	39.3	38.7
School	45.1	47.7
Average Service for Active		
Town Police	12.5	11.4
School	12.5	12.9
Average Age for Inactive		
Town Police	65.0	66.3
School	61.8	62.1

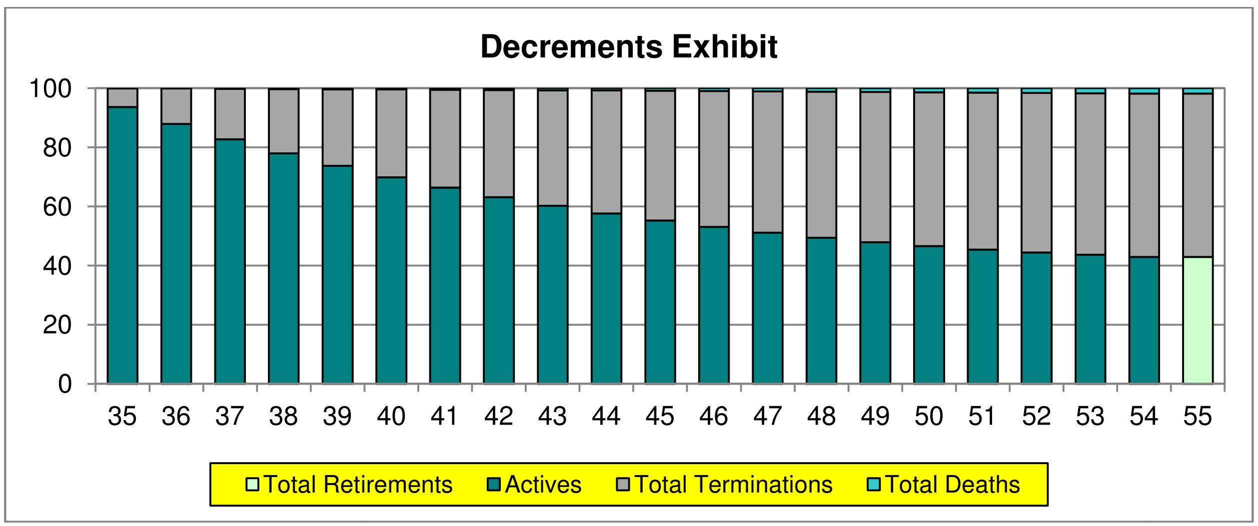
[8] Active participants' enrollments above include employees with coverage only. Refer to Summary of Plan Participants section for an accurate breakdown of active employees with and without coverage.
[9] School active enrollment as of June 30, 2011 excludes Support Staff employees. They have been included in the School active enrollment as of June 30, 2013.

Appendix C – Decrements Exhibit (Withdrawal 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

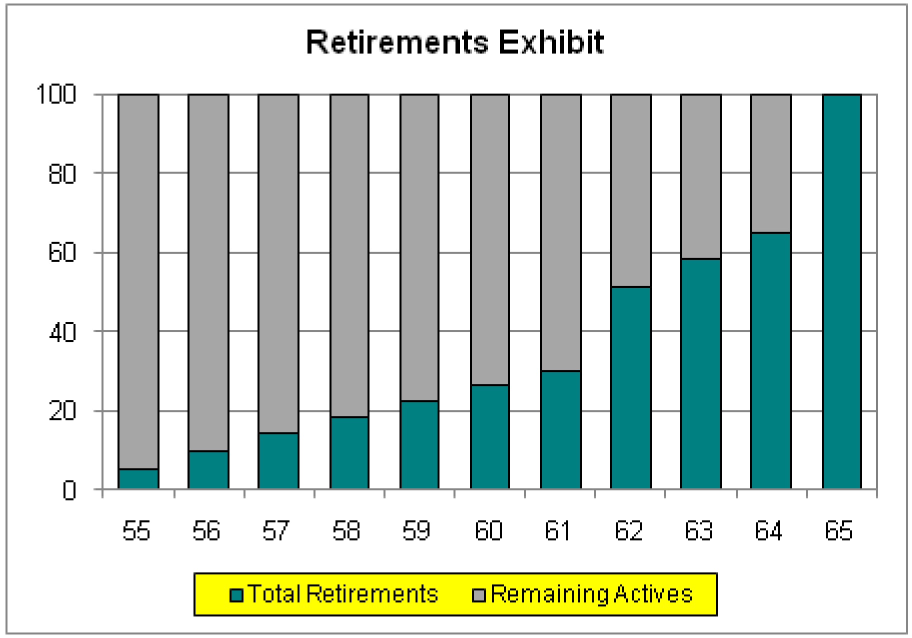


* The above rates are illustrative rates and are not used in our GASB calculations.

Appendix D – 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 E – Illustration of GASB Calculations for Non-Actuaries

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 E – 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