JUNE 30, 2013
POST RETIREMENT BENEFITS ANALYSIS
OF
THE TOWN OF SMITHFIELD

September 2013

TABLE OF CONTENTS

SECTION I - OVERVIEW

The Town of Smithfield has engaged Buck Consultants to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2013. This valuation was performed using employee census data, enrollment data, claims, premiums, participant contributions and plan provision information provided by personnel of the Town of Smithfield. Buck did not audit these data, although they were reviewed for reasonability. The results of the valuation are dependent on the accuracy of the data.

Based on the foregoing, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures.

The purposes of the valuation are to analyze the current funded position of the Town's post-retirement benefits program, determine the level of contributions necessary to assure sound funding and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Government Accounting Standards Board's Statements Nos. 43 and 45, respectively entitled "Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account of the employer must be used to select the discount rate used to measure the plan. If the benefits had been fully pre-funded (i.e., the Town had been contributing the full ARC (Annual Required Contribution) each year), the discount rate would be based on the expected return that the qualified assets would be assumed to earn, which in turn depends upon the asset allocation of those funds. In the event of partial funding (i.e., the Town had been contributing a portion of the ARC each year to a qualified trust), a "blended" discount rate would be used. As the assets had not yet been qualified in the prior valuation, a discount rate of 3.5% was used previously. In the current valuation, a blended discount rate of 5.25% was used since the plan's assets became qualified during FY13 but the Town had not been contributing the full ARC in previous years.

This valuation report provides a restatement of for the FY12 results from the prior valuation. The original Fiscal Year 2012 valuation was calculated assuming that all employees were eligible for medical and dental benefits after obtaining 20 years of services. It was subsequently brought to our attention that only Police and Fire employees are subject to these guidelines; Town employees have the additional requirement of obtaining age 58, in addition to 20 years of service with the Town. The restatement reflects the updated eligibility guidelines. Additionally, further breakdowns are provided to split Police and Fire employees from other Town employees.

The Fiscal Year 2013 valuation results are based on a roll-forward of the restated Fiscal Year 2012 valuation results, adjusted for known Fiscal Year 2014 premium rate information and the blended discount rate noted above. The blended discount rate was determined based on the value of the assets in relation to the accumulated fully funded ARC on a hypothetical basis. While the assets became qualified during Fiscal Year 2013, we used actual asset information as of 7/1/2012 as a proxy in determining the blended discount rate used for the Fiscal Year 2013 valuation results.

To estimate the effect of fully prefunding the obligation, we have used an alternative discount rate of 8.0%, which implicitly assumes a relatively high proportion of equity investments. Section II provides a summary of the principal valuation results. Section V provides a projection of funding amounts.

The 6/30/2012 AAL is approximately $1.4 million lower (from $35.1M to $33.7M) based on the restated 2012 results, which is due to reflecting the Town's eligibility requirements for non-Police and non-Fire. If all the assumptions of the restated 2012 valuation had been met, we would have expected the Actuarial Accrued Liability to increase from approximately $33.7 million to $34.8 million. The difference between the expected Actuarial Accrued Liability (AAL) and the actual Actuarial Accrued Liability of $24.8 million is shown in the table below (in millions):

Expected AAL @ 6/30/2013		$34.8
Updated FY2014 Premium Rates	(4.0)	
Discount rate (3.5% to 5.25%)	(6.0)	
Actual AAL @ 6/30/2013		$24.8

The valuation was prepared under my supervision. I am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries and have met the Qualifications Standard of the American Academy of Actuaries to render the actuarial opinions contained herein. I am available to answer questions about this report.

Respectfully Submitted,

BUCK CONSULTANTS, AN ACS COMPANY

Frank Svara Jr.

Frank Svara Jr., A.S.A., M.A.A.A. Date

Director, Health & Productivity

SECTION II – REQUIRED INFORMATION

		Partial Prefunding	Full Prefunding	Difference
	Discount Rate	5.25%	8.00%	
a)	Actuarial valuation date	June 30, 2013	June 30, 2013	June 30, 2013
b)	Actuarial Value of Assets	977,467	977,467	0
c)	Actuarial Accrued Liability			
	Active participants	13,745,446	9,270,981	4,474,464
	Retired participants	11,022,601	9,141,258	1,881,343
	Total AAL	24,768,046	18,412,239	6,355,807
d)	Unfunded Actuarial Liability "UAL" [c - b]	23,790,579	17,434,772	6,355,807
e)	Funded ratio [b / c]	3.9%	5.3%	-1.4%
f)	Annual covered payroll	33,209,399	33,209,399	0
g)	UAL as percent of covered payroll	71.64%	52.50%	N/A
h)	Normal Cost for fiscal year 2013	756,690	438,901	317,789
i)	Amortization of UAL for fiscal year 2013*	1,464,184	1,385,744	78,440
j)	Interest to middle of fiscal year	57,553	71,582	-14,029
k)	Annual Required Contribution "ARC" for fiscal year 2013 [h + i + j]	2,278,427	1,896,227	382,200
l)	Expected benefit payments for FY2013**	1,158,867	1,158,867	0

* 30-year amortization, 5.25% amortization is based on a total UAL of $23,029,348 and 8.00% amortization is based on a total UAL of $16,848,447

** On an expected "true cost" basis.

SECTION III – VALUATION INFORMATION

Annual Post Retirement Premiums effective July 1, 2012 and July 1, 2013
Benefits are available to employees and retirees through a number of Plans depending on the contract negotiated. The following are the annual current rates being paid by the town and by members.

Plans:	2012 Individual	2012 Family	2013 Individual	2013 Family
Police				
Medical	$ 7,821	$19,736	$ 7,665	$ 19,341
Dental	$ 429	$ 1,066	$ 420	$ 1,044
Fire				
Medical	$ 7,874	$19,946	$ 7,717	$ 19,547
Dental	$ 429	$ 1,066	$ 420	$ 1,044
Town				
Medical	$ 7,430	$18,746	$ 7,281	$ 18,371
Dental	$ 429	$ 1,032	$ 420	$ 1,012
Classic – School				
Medical	$ 8,454	$21,343	$ 7,636	$ 19,277
Dental	$ 430	$ 1,045	$ 387	$ 940
HealthMate – School				
Medical	$ 7,306	$18,748	$ 6,418	$ 16,471
Dental	$ 430	$ 1,045	$ 387	$ 940
HealthMate 100/80 – School				
Medical	$ 6,771	$17,375	$ 6,040	$ 15,457
Dental	$ 430	$ 1,045	$ 387	$ 940

SECTION III – VALUATION INFORMATION

06/30/2013 Valuation

	Town	Police	Fire	Ice Rink	Water Fund	School	Total
Number of Employees included in valuations							
Actives	55	40	51	3	2	309	460
Retired & Spouses (medical &/or dental)	6	23	18	0	0	55	102
Total	61	63	69	3	2	364	562
Accrued Liability @ 5.25%							
Active	1,084,863	3,825,737	5,998,125	67,946	157,056	2,611,717	13,745,446
Retired	429,825	4,954,024	4,157,943	0	0	1,480,808	11,022,601
Total	1,514,688	8,779,761	10,156,068	67,946	157,056	4,092,526	24,768,046
Annual Required Contribution for FY13							
Normal Cost	64,742	198,994	377,013	6,238	5,881	103,822	756,690
Amortization of UAL	89,953	520,213	586,238	3,572	8,780	255,428	1,464,184
Interest to middle of fiscal year	4,009	18,638	24,962	254	380	9,310	57,553
Total	158,704	737,845	988,213	10,064	15,041	368,560	2,278,427
Pay-as-you-go for FY2013	96,695	359,698	306,702	3	11	395,758	1,158,867
Difference	62,009	378,147	681,511	10,061	15,030	-27,198	1,119,560

SECTION III – VALUATION INFORMATION

Restated Prior Valuation

06/30/2012 Valuation

	Town	Police	Fire	Ice Rink	Water Fund	School	Total
Number of Employees included in valuations							
Actives	55	40	51	3	2	309	460
Retired & Spouses (medical &/or dental)	6	23	18	0	0	55	102
Total	61	63	69	3	2	364	562
Accrued Liability @ 3.5%							
Active	1,338,832	5,380,366	7,990,212	105,803	213,754	3,500,844	18,529,811
Retired	590,377	6,695,335	5,454,634	0	0	2,457,135	15,197,481
Total	1,929,209	12,075,701	13,444,846	105,803	213,754	5,957,979	33,727,292
Annual Required Contribution for FY12							
Normal Cost	89,106	327,909	594,755	10,979	8,392	149,516	1,180,657
Amortization of UAL	99,447	614,283	667,019	4,793	10,409	323,173	1,719,124
Interest to middle of fiscal year	3,271	16,347	21,891	274	326	8,201	50,310
Total	191,824	958,539	1,283,665	16,046	19,127	480,890	2,950,091
Pay-as-you-go for FY2012	120,237	360,061	307,023	1	4	554,321	1,341,646
Difference	71,587	598,478	976,642	16,045	19,123	-73,431	1,608,445

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - 5.25%*

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	(c) Covered Payroll	[(b)-(a)]/(c) UAL as Percentage of Covered Payroll
June 30, 2009	0	26,277,277	26,277,277	0.00%	31,424,385	83.62%
June 30, 2010	0	26,748,967	26,748,967	0.00%	32,276,437	82.87%
June 30, 2011	0	31,168,449	31,168,449	0.00%	32,311,568	96.46%
June 30, 2012	0	33,727,292	33,727,292	0.00%	33,209,399	101.56%
June 30, 2013	977,467	24,768,046	23,790,579	3.95%	34,537,775**	68.88%

*These results are based on a discount rate of 3.5% for 2009 - 2012 and 5.25% for 2013.
** Estimated

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases.

In the amortization schedule shown for the fully prefunded case, the amortization of the unfunded accrued liability is shown in a closed, level dollar basis. In the amortization schedule shown for the non-fully prefunded case, the amortization of the unfunded accrued liability is shown on an open level dollar basis. In both cases, the amortization period is 30 years. The normal costs are expected to increase at the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid on January 1 (i.e. the middle of the fiscal year).

Paragraph 12 of GASB 45 stipulates that valuations must be performed at least biennially or triennally, depending on the number of plan members. The following projections are intended only to illustrate long-term implications of prefunding versus pay-as-you-go.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Assumed Partial Prefunding Interest Rate of 5.25%*

Fiscal Year Ending In	Normal Cost	Amortization of UAL	Interest	ARC	Pay-as-You-Go
2013	756,690	1,464,184	57,553	2,278,427	1,158,867
2014	790,741	1,512,677	59,691	2,363,109	1,268,097
2015	826,324	1,562,293	61,899	2,450,516	1,294,464
2016	863,509	1,615,175	64,233	2,542,917	1,328,834
2017	902,367	1,671,080	66,689	2,640,136	1,393,264
2018	942,974	1,728,317	69,224	2,740,515	1,453,204
2019	985,408	1,787,367	71,854	2,844,629	1,520,203
2020	1,029,751	1,847,987	74,574	2,952,312	1,597,895
2021	1,076,090	1,909,689	77,374	3,063,153	1,635,554
2022	1,124,514	1,975,274	80,329	3,180,117	1,662,503
2023	1,175,117	2,045,786	83,467	3,304,370	1,754,419
2024	1,227,997	2,117,390	86,693	3,432,080	1,938,174
2025	1,283,257	2,184,306	89,859	3,557,422	1,972,522
2026	1,341,004	2,256,193	93,219	3,690,416	2,017,037
2027	1,401,349	2,332,814	96,768	3,830,931	2,142,543
2028	1,464,410	2,409,310	100,384	3,974,104	2,345,404
2029	1,530,308	2,480,810	103,945	4,115,063	2,344,739
2030	1,599,172	2,560,517	107,795	4,267,484	2,452,091
2031	1,671,135	2,642,014	111,772	4,424,921	2,445,470
2032	1,746,336	2,733,037	116,079	4,595,452	2,454,343
2033	1,824,921	2,833,292	120,714	4,778,927	2,462,567
2034	1,907,042	2,943,533	125,699	4,976,274	2,452,117
2035	1,992,859	3,065,739	131,090	5,189,688	2,511,709
2036	2,082,538	3,196,216	136,795	5,415,549	2,575,855
2037	2,176,252	3,335,360	142,829	5,654,441	2,631,917
2038	2,274,183	3,484,423	149,230	5,907,836	2,674,111
2039	2,376,521	3,645,113	156,046	6,177,680	2,694,196
2040	2,483,464	3,819,778	163,344	6,466,586	2,566,166
2041	2,595,220	4,019,120	171,406	6,785,746	2,636,890
2042	2,712,005	4,231,792	179,943	7,123,740	2,546,519
2043	2,834,045	4,469,339	189,262	7,492,646	2,368,476

* Projection assumes the Town only funds at PAYGO cost going forward. For illustrative purposes only as partial funding discount rate may decrease over time.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Assumed Full Prefunding Interest Rate of 8.00%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	Interest	ARC	Pay-as-You-Go
2013	438,901	1,385,744	71,582	1,896,227	1,158,867
2014	458,652	1,385,744	72,357	1,916,753	1,268,097
2015	479,291	1,385,744	73,166	1,938,201	1,294,464
2016	500,859	1,385,744	74,012	1,960,615	1,328,834
2017	523,398	1,385,744	74,897	1,984,039	1,393,264
2018	546,951	1,385,744	75,821	2,008,516	1,453,204
2019	571,564	1,385,744	76,786	2,034,094	1,520,203
2020	597,284	1,385,744	77,795	2,060,823	1,597,895
2021	624,162	1,385,744	78,850	2,088,756	1,635,554
2022	652,249	1,385,744	79,951	2,117,944	1,662,503
2023	681,600	1,385,744	81,103	2,148,447	1,754,419
2024	712,272	1,385,744	82,306	2,180,322	1,938,174
2025	744,324	1,385,744	83,564	2,213,632	1,972,522
2026	777,819	1,385,744	84,878	2,248,441	2,017,037
2027	812,821	1,385,744	86,251	2,284,816	2,142,543
2028	849,398	1,385,744	87,686	2,322,828	2,345,404
2029	887,621	1,385,744	89,185	2,362,550	2,344,739
2030	927,564	1,385,744	90,752	2,404,060	2,452,091
2031	969,304	1,385,744	92,390	2,447,438	2,445,470
2032	1,012,923	1,385,744	94,101	2,492,768	2,454,343
2033	1,058,505	1,385,744	95,889	2,540,138	2,462,567
2034	1,106,138	1,385,744	97,758	2,589,640	2,452,117
2035	1,155,914	1,385,744	99,710	2,641,368	2,511,709
2036	1,207,930	1,385,744	101,751	2,695,425	2,575,855
2037	1,262,287	1,385,744	103,884	2,751,915	2,631,917
2038	1,319,090	1,385,744	106,112	2,810,946	2,674,111
2039	1,378,449	1,385,744	108,441	2,872,634	2,694,196
2040	1,440,479	1,385,744	110,874	2,937,097	2,566,166
2041	1,505,301	1,385,744	113,417	3,004,462	2,636,890
2042	1,573,040	1,385,744	116,075	3,074,859	2,546,519
2043	1,643,827	-	64,488	1,708,315	2,368,476

SECTION VI – GASB 45 DISCLOSURE REQUIREMENTS

A. **Annual OPEB Cost and Net OPEB Obligations**	07/01/2010 - 06/30/2011	07/01/2011 - 06/30/2012	07/01/2012 - 06/30/2013	07/01/2013 - 06/30/2014**
1. Annual Required Contribution (ARC)	2,930,830	2,950,091	2,278,427	2,363,012
2. Interest on net OPEB Obligation	64,877	114,927	253,494	232,529
3. Adjustment to ARC	-100,784	-178,535	-323,106	-296,383
4. Annual OPEB Cost (Expense)	2,894,923	2,886,483	2,208,815	2,299,158
5. Contribution made (assumed middle of year)*	1,464,912	1,341,646	2,608,161	1,268,097
6. Increase in OPEB Obligation	1,430,011	1,544,837	-399,346	1,031,061
7. Net OPEB Obligation - beginning of year	1,853,617	3,283,628	4,828,465	4,429,119
8. Net OPEB Obligation - end of year	3,283,628	4,828,465	4,429,119	5,460,180

** Contribution made reflects actual benefit payments for FY13, including the FYE13 asset balance as benefit payments were paid outside of the assets; contributions for other years were assumed to equal Expected Benefit Payments.*

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending 2010 - 2013 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	Percentage of Covered Payroll
06/30/2009	2,288,176	61.8%	874,446	31,424,385	7.28%
06/30/2010	2,337,207	58.1%	1,853,617	32,276,437	7.24%
06/30/2011	2,894,923	50.6%	3,283,628	32,311,568	8.96%
06/30/2012	2,886,483	46.5%	4,828,465	33,209,399	8.69%
06/30/2013	2,208,815	118.1%	4,429,119	34,537,775**	6.40%
06/30/2014**	2,299,158	55.2%	5,460,180	35,919,286**	6.40%

*** Estimated*

B. Funded Status and Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	Covered Payroll	[(b)-(a)]/(c) UAL as Percentage of Covered Payroll
06/30/09	0	26,277,277	26,277,277	0.00%	31,424,385	83.62%
06/30/10	0	26,748,967	26,748,967	0.00%	32,276,437	82.87%
06/30/11	0	31,168,449	31,168,449	0.00%	32,311,568	96.46%
06/30/12	0	33,727,292	33,727,292	0.00%	33,209,399	101.56%
06/30/13	977,467	24,768,046	23,790,579	3.95%	34,537,775**	68.88%

C. Methods and Assumptions used for FY2013 Valuation

- Interest Rate	5.25%
- 2013 Medical Trend Rate	9.00%
- Ultimate Medical Trend Rate	4.50%
- Year Ultimate Medical Trend Rate Reached	2021
- Actuarial Cost Method	Projected Unit Credit
- The remaining amortization period at 06/29/2013	30
- Increase in amortization payments	0%
- Annual Payroll Increase	4.00%

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF SMITHFIELD, ALL GROUPS

Interest

Fully prefund: 8.0% per year, net of investment expenses
Partially Funded: 5.25% per year, net of investment expenses

- Note: FY12 results were based on the unfunded rate of 3.5%. It is our understanding that the City has established a qualified trust to hold the assets for purposes of paying future postretirement benefits during FY13. Based on this understanding, we have used a blended rate of 5.25% for FY13.

Actuarial Cost Method: Projected Unit Credit attributed to benefit eligibility.

Medical Care Inflation:

Year	Inflation Rate
2012	9.0%
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017	6.5%
2018	6.0%
2019	5.5%
2020	5.0%
2021 & after	4.5%

- Note: For school retirees hired before June 20, 1989 who do not meet 60/20 or 28 years of service with at least 15 with Smithfield, the Town's portion of the cost of retiree benefits are frozen at retirement and not increased for post-retirement inflation.

Amortization period: For the fully prefunded scenario, 30-year level-dollar payments, closed basis. For the non-fully prefunded scenario, 30-year level dollar, open basis. Amortization is performed on the plan as a whole and may not be appropriate on a component basis for funding purposes.

Participation: For non-School employees, 100% for all future retirees. For School employees, 100% for future retirees expecting to receive full subsidy and 85% for future retirees without full subsidy. The same assumption was used in the previous valuation.

Marital status: 80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF SMITHFIELD, ALL GROUPS

Medical Plan Costs: Because the plans are experience rated and limited claims information was available, the assumed per capita costs are based on reported premiums as shown in Section III. The costs were adjusted to age 65 and then adjusted to age-specific rates using the age-based morbidity factors discussed further below. The costs for the 2013 valuation were trended back from 7/1/2013 to 7/1/12 using the FY2012 trend of 9%. These costs are assumed to include any associated administrative expenses.

	Individual @ Age 65	
	2012	2013
Police	$ 12,234	$ 10,999
Fire	$ 12,317	$ 11,074
Town	$ 11,171	$ 10,044
School - Deductible (Co-Ins 100/80)	$ 9,604	$ 7,859
School - Standard	$ 10,362	$ 8,352
School - Classic	$ 11,991	$ 9,936

Dental Plan Benefits: Per capita costs based on the premiums as shown in Section III were projected using a 4% trend. No age-based morbidity was applied. All future retirees are assumed to elect post-retirement dental coverage.

Age-based Morbidity: Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

Age	Annual Increase Retiree
39 and below	0.0%
40-64	2.5%
65-84	2.0%
80 and over	0.0%

- Note: Age-based morbidity is applied to the gross medical claims but not to retiree contributions nor to the gross dental claims.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

GENERAL EMPLOYEES

Separations from Active Service

Withdrawal Rates:

For teachers, withdrawal rates are based on the Teachers termination rate table published in the 2010 ERS Experience Study[1].

For non-teacher general employees, withdrawal rates are based on the General Employees' termination rate table published in the 2010 MERS Experience Study[2].

Retirement Rates:

For employees who become eligible for OPEB benefits prior to becoming eligible for pension (i.e., age 60 with at least 10 years of service or with at least 28 years of service for teachers, and age 58 with at least 10 years of service or at least 30 years of service for non-teacher general employees), retirement rates are assumed to follow the respective withdrawal rate tables described above.

Disability Rates:

For teachers, accidental and ordinary disability rates are based on the Teachers retirement rate table published in the 2010 ERS Experience Study.

For non-teacher general employees, accidental and ordinary disability rates are based on the General Employees' disability rate table published in the 2010 MERS Experience Study.

Ordinary disability rates were assumed to continue for members eligible for retirement.

Mortality Rates:

The RP-2000 Combined Healthy Fully Generational table. For the period after disability retirement, the RP-2000 Combined Healthy Fully Generational table set forward 2 years is used.

---

[1] Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010. May 23, 2011, https://www.ersri.org/public/actuarialValuations/ExpStudyRpt2010.pdf

[2] Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010, Supplement Covering The Municipal Employees' Retirement System. May 23, 2011, https://www.ersri.org/public/actuarialValuations/ExpStudyRpt2010_MERS_Supplement.pdf**Error! Hyperlink reference not valid.**

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

POLICE AND FIRE

Separations From Active Service

Withdrawal Rates: For police and fire, withdrawal rates are based on the General Employees' termination rate table published in the 2010 MERS Experience Study[3].

Retirement Rates: For police and fire with at least 20 years of service, retirement rates are based on the General Employees' retirement rate table published in the 2010 MERS Experience Study. For police and fire retiring prior to meeting the above eligibility criteria, retirement rates are assumed to follow the withdrawal rate table for administrators described above.

Disability Rates: For police and fire, accidental and ordinary disability rates are based on the General Employees' disability rate table published in the 2010 MERS Experience Study. Ordinary disability rates were assumed to continue for members eligible for retirement.

Mortality Rates: The RP-2000 Combined Healthy Fully Generational table. For the period after disability retirement, the RP-2000 Combined Healthy Fully Generational table set forward 2 years is used.

.

[3] Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010, Supplement Covering The Municipal Employees' Retirement System. May 23, 2011, https://www.ersri.org/public/actuarialValuations/ExpStudyRpt2010_MERS_Supplement.pdf

SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

For purposes of this valuation, active employees are assumed to keep their current coverage level (family or individual) after they retire, with any spouse coverage assumed to continue for the life of the spouse.

Retiree Medical and Dental Coverage Provided by Town

Pre/post-65 Coverage

Retiree Medical only to age 65.

Retirement Eligibility

Town, not Police or Fire:
- Age 58 with 20 years of service (or any years of service for accidental disability retirement)

Police and Fire:
- 20 years of service (or any years of service for accidental disability retirement)

School:
- If hired before 6/20/1989: Age 60 with 15 years of service.
- If hired after 6/19/1989: Either 1) age 60 with 20 years of service, or 2) 28 years of service with at least 15 years with Smithfield.

Cost-sharing

Town:
Participants in this plan do not share a portion of the post-retirement costs.

School:
- If hired before June 20, 1989
    - If either 1) age 60 and 20 years of service, or 2) 28 years of service with at least 15 years with Smithfield: 0% coshare (i.e. full coverage).
    - Else (i.e. 60/15 but not 60/20 or service < 28): 0% coshare at the moment of retirement, and retiree covers the cost of all post-retirement increases.

- If hired after June 19, 1989 and before July 1, 1992
    - If 28 years of service with at least 15 years with Smithfield: 0% coshare (i.e. full coverage).
    - Else (i.e. 60/20 but service < 28): 50% coshare.

- If hired after June 30, 1992
    - If 1) age 60 and 20 years of service, or 2) 28 years of service with at least 15 years with Smithfield: retiree receives benefits limited to $5,000 annually.

SCHEDULE C – CONSIDERATION OF HEALTH CARE REFORM
Summary of Effects of Selected Provisions

Early Retiree Reinsurance Program – Effective 6/1/2010: Due to the short-term nature of the payments expected to be received under this program, there is no impact on long-term GASB 45 liabilities.

Removal of Lifetime Maximum: This does not apply since the current medical plans have no lifetime maximums. Note that this valuation reflects a $5,000 annual maximum for school retirees with either 28 years of service or 60 years of age and 20 years of service. We have been advised by the client that these benefits constitute a Retiree Only plan, and so are not subject to restrictions on annual maximums under the Patient Protection and Affordable Care Act.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. This does not apply since none of the current plans are Medicare Advantage plans.

Expansion of Child Coverage to Age 26: Since few retirees cover children on retiree health plans, this provision will likely have a relatively small effect on the gross benefit cost. We have not reflected the impact of any cost increase due to the expansion of coverage.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting 1/1/2011: RDS payments are not reflected as on ongoing offsetting item in GASB 45 valuations, and so no impact is reflected. Further, we have not assumed any reduction future participation as changes in the Part D design enhancements are phased in.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018: The excise tax is not reflected since we have ruled it to be non-material due to its minor impact on the liabilities (less than 0.1% of AAL).

Other: We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

SCHEDULE D - GLOSSARY OF TERMS

Actuarial accrued liability
That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

Actuarial assumptions
Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB 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.

Actuarial cost method
A procedure for determining the Actuarial Present Value of OPEB 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.

Actuarial experience gain or loss
A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Amortization (of unfunded actuarial accrued liability)
That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

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

Annual required contributions of the employer (ARC)
The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

Closed amortization period (closed basis)
A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Covered payroll
Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan
An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Funded ratio
The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding policy
The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate
The rate of change in 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.

Investment return assumption (discount rate)
The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method
The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method
Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

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. It will be included as a balance sheet entry on the financial statements.

Normal cost
That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt
All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits
Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-you-go
A method of financing an OPEB 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.

Required supplementary information (RSI)
Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.