Portsmouth School District

GASB 45 Actuarial Valuation

Fiscal Year Ending June 30, 2015

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nyhart

December 17, 2015

Christopher Diluro
Portsmouth School District
29 Middle Road
Portsmouth, RI 02871

This report summarizes the GASB actuarial valuation for the Portsmouth School District 2014/15 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 information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information and asset information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but 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. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate and other economic assumptions have been selected by the Plan Sponsor. Demographic assumptions have been 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 calculations have been made in accordance with generally accepted actuarial principles and practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

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. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.

Randy Gomez

Randy Gomez, FSA, MAAA
Consulting Actuary

Evi Laksana, ASA, MAAA
Valuation Actuary

Actuary's Notes

There are three substantive plan provision changes since the last interim valuation, which was for the fiscal year ending June 30, 2014:

1. Effective on July 1, 2015, all Administrators are on individual contracts and individual contract employees are no longer eligible for post-retirement health benefits. This change has reduced the School's liabilities slightly.

2. At Will employees were previously eligible for post-retirement health benefits upon acquiring 10 years of service and meeting State of RI pension eligibility. They are now considered individual contract employees and are no longer eligible for retiree health benefits. This change reduced the School's liabilities.

3. Teachers are eligible for retiree health benefits until Medicare eligibility[1] upon attainment of 15 years of service with the School District and meeting the State of Rhode Island Employees Retirement System (RI ERS) pension eligibility requirements. For RI ERS members, effective on July 1, 2015, employees are now eligible to retire upon attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with at least 33 years of service. These are additional eligibility requirements, which means that if employees are eligible to retire under the current eligibility requirements, they may do so. This change does not affect the School's liabilities since the earliest retirement eligibility date for RI ERS members are not impacted by these new eligibility requirements.

Several actuarial assumptions have been updated since the last full valuation, which was for fiscal year ending June 30, 2013:

1. In the prior valuations, all Teachers are assumed to elect the additional 3 years of subsidized individual coverage in lieu of the $4,500 lump sum cash incentive at retirement. In this year's valuation, we have assumed that only 20% of Teachers will elect the additional 3 years of subsidized individual coverage with the remaining 80% electing the $4,500 lump sum cash incentive at retirement. This change caused a decrease in the School District's liability.

2. Mortality assumption has been updated to RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2014 from RP-2000 Combined Mortality Table fully generational using Scale AA. This change caused an increase in the School District's liability.

3. Health care trend rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0%. This change increased the School District's liabilities.

[1] Some existing retirees over the age of 65 who are not eligible for Medicare are allowed to remain in the School District's group health plans by paying the full cost of coverage, unless they are eligible for a subsidy provided by the School District.

Summary of Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2015 compared to the prior fiscal year as shown in the School District's Notes to Financial Statement.

		As of July 1, 2013		*As of July 1, 2014*
Actuarial Accrued Liability	$	4,067,108	$	3,922,350
Actuarial Value of Assets	$	0	$	0
Unfunded Actuarial Accrued Liability	$	4,067,108	$	3,922,350
Funded Ratio		0.0%		0.0%

		FY 2013/14		*FY 2014/15*
Annual Required Contribution	$	468,795	$	461,368
Annual OPEB Cost	$	426,916	$	421,315
Annual Employer Contribution	$	463,468[2]	$	431,277[3]

		As of June 30, 2014		*As of June 30, 2015*
Net OPEB Obligation	$	802,007	$	792,045

	As of June 30, 2015
Total Active Participants	301
Total Retiree Participants	69

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

[2] FY 2013/14 total annual employer contribution for pay-go costs is the sum of (a) $257,830 in actual premium payments for retirees and (b) $205,638 for the implicit portion of pay-go costs.
[3] FY 2014/15 total annual employer contribution for pay-go costs is the sum of (a) $275,838 in actual premium payments for retirees and (b) $155,439 for the implicit portion of pay-go costs.

Below is a breakdown of total GASB 45 liabilities allocated to past, current, and future service as of July 1, 2014 compared to the prior year.

		As of July 1, 2013		*As of July 1, 2014*
Present Value of Future Benefits	**$**	**5,343,289**	**$**	**5,164,368**
Active Employees		2,737,468		2,760,680
Retired Employees		2,605,821		2,403,688
Actuarial Accrued Liability	**$**	**4,067,108**	**$**	**3,922,350**
Active Employees		1,461,287		1,518,662
Retired Employees		2,605,821		2,403,688
Normal Cost	**$**	**99,033**	**$**	**104,411**
Future Normal Cost	**$**	**1,177,148**	**$**	**1,137,607**

Present Value of Future Benefits is the amount needed as of July 1, 2014 and 2013 to fully fund the School District's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

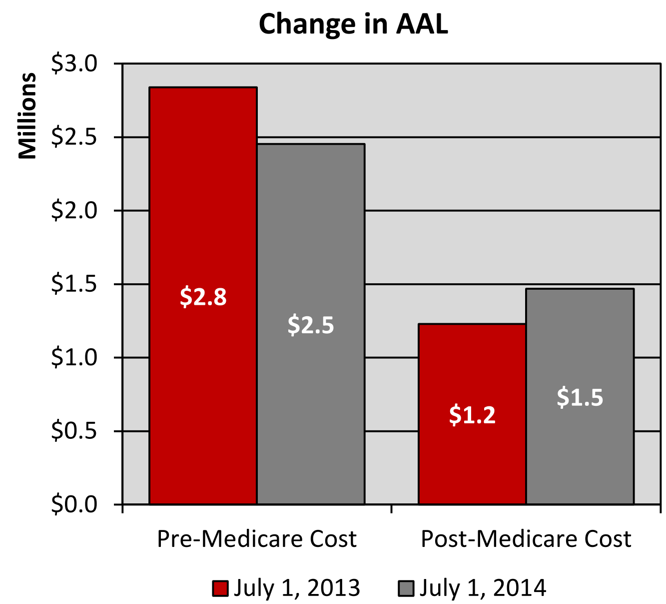
Actuarial Accrued Liability is the portion of PVFB considered to be accrued or earned as of July 1, 2014 and 2013. This amount is a required disclosure in the Required Supplementary Information section.

Normal Cost is the portion of the total liability amount that is attributed and accrued for current year's active employee service by the actuarial cost method.

Future Normal Cost is the portion of the total liability amount that is attributed to the future employee service by the current year's valuation by the actuarial cost method.

Below is a breakdown of total GASB 45 Actuarial Accrued Liability (AAL) allocated to pre and post Medicare eligibility. The liability shown below includes explicit (if any) and implicit subsidies. Refer to the Substantive Plan Provisions section for complete information on the Plan Sponsor's GASB subsidies.

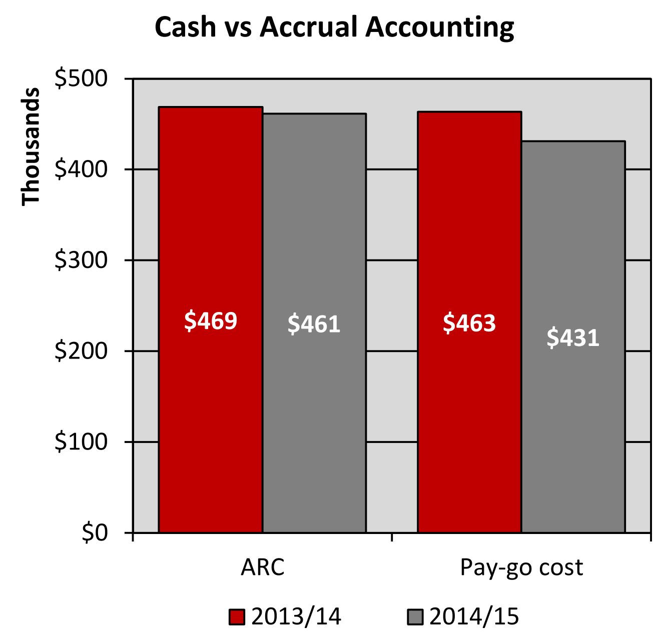
Actuarial Accrued Liability (AAL)		*As of July 1, 2013*		*As of July 1, 2014*
Active Pre-Medicare	$	1,435,874	$	1,432,536
Active Post-Medicare		25,413		86,126
Total Active AAL	$	1,461,287	$	1,518,662
Retirees Pre-Medicare	$	1,402,361	$	1,021,386
Retirees Post-Medicare		1,203,460		1,382,302
Total Retirees AAL	$	2,605,821	$	2,403,688
Total AAL	**$**	**4,067,108**	**$**	**3,922,350**



Development of Annual Required Contribution (ARC)

Required Supplementary Information		FY 2013/14		FY 2014/15
Actuarial Accrued Liability as of beginning of year	$	4,067,108	$	3,922,350
Actuarial Value of Assets as of beginning of year		0		0
Unfunded Actuarial Accrued Liability (UAAL)	**$**	**4,067,108**	**$**	**3,922,350**
Funded Ratio		0.0%		0.0%
Covered payroll[4]	$	19,170,981	$	19,008,574
UAAL as a % of covered payroll		21.2%		20.6%

Annual Required Contribution		FY 2013/14		FY 2014/15
Normal cost as of beginning of year	$	99,033	$	104,411
Amortization of the UAAL		351,731		339,212
Total normal cost and amortization payment	$	450,764	$	443,623
Interest to end of year		18,031		17,745
Total Annual Required Contribution (ARC)	**$**	**468,795**	**$**	**461,368**



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.

[4] 2013/14 covered payroll is based on 2012/13 covered increased by the payroll growth assumption (3.0%).

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation		FY 2013/14		FY 2014/15
ARC as of end of year	$	468,795	$	461,368
Interest on Net OPEB Obligation (NOO) to end of year		33,542		32,080
NOO amortization adjustment to the ARC		(75,421)		(72,133)
Annual OPEB cost	$	426,916	$	421,315
Annual employer contribution for pay-go cost		(463,468) [5]		(431,277)[6]
Annual employer contribution for pre-funding		0		0
Change in NOO	$	(36,552)	$	(9,962)
NOO as of beginning of year		838,559		802,007
NOO as of end of year	**$**	**802,007**	**$**	**792,045**

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 OPB 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.

[5] FY 2013/14 annual employer contribution for pay-go cost is the sum of (a) $257,830 in actual premium payments for retirees and (b) $205,638 for the implicit portion of pay-go costs.
[6] FY 2014/15 annual employer contribution for pay-go cost is the sum of (a) $275,838 in actual premium payments for retirees and (b) $155,439 for the implicit portion of pay-go costs.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2015 and prior fiscal years as shown in the School District's Notes to Financial Statements.

Schedule of Funding Progress

As of	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
	A	B	C = A - B	D = B / A	E	F = C / E
July 1, 2014	$ 3,922,350	$ 0	$ 3,922,350	0.0%	$ 19,008,574	20.6%
July 1, 2013	$ 4,067,108	$ 0	$ 4,067,108	0.0%	$ 19,170,981	21.2%
July 1, 2012	$ 4,717,025	$ 0	$ 4,717,025	0.0%	$ 18,612,603	25.3%

Schedule of Employer Contributions

FYE	Employer Contributions	Annual Required Contribution (ARC)	% of ARC Contributed
	A	B	C = A / B
June 30, 2015	$ 431,277	$ 461,368	93.5%
June 30, 2014	$ 463,468	$ 468,795	98.9%
June 30, 2013	$ 486,326	$ 543,705	89.4%

Historical Annual OPEB Cost

As of	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 421,315	102.4%	$ 792,045
June 30, 2014	$ 426,916	108.6%	$ 802,007
June 30, 2013	$ 502,642	96.8%	$ 838,559

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.

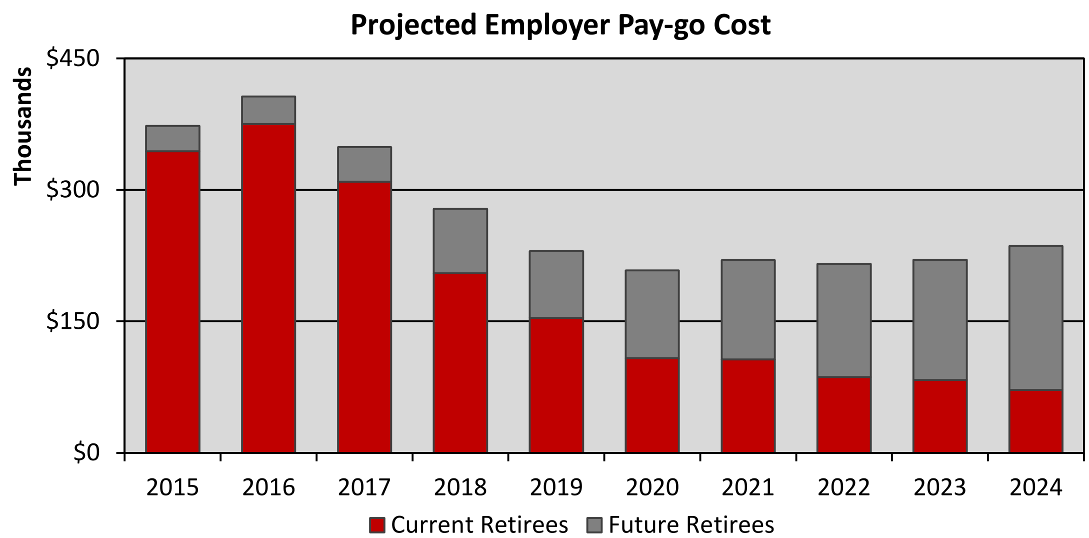
		FY 2013/14		*FY 2014/15*[7]
Actuarial Accrued Liability as of beginning of year	$	4,067,108	$	3,922,350
Normal cost as of beginning of year		99,033		204,411
Expected benefit payments during the year		(619,369)		(372,949)
Interest adjustment to end of year		154,380		153,685
Expected Actuarial Accrued Liability as of end of year	$	3,701,152	$	3,807,497
Actuarial (gain) / loss due to experience		367,804		0
Actuarial (gain) / loss due to provisions / assumptions changes		(146,606)		0
Actual Actuarial Accrued Liability as of end of year	$	3,922,350	$	3,807,497

Reconciliation of AAL shows what the actuary expects the actuarial accrued liability to be at the beginning of the following fiscal year based on current assumptions and plan provisions. The expected end of year AAL will change as actual plan experience varies from assumptions. Generally, the AAL is expected to have a net increase each year.

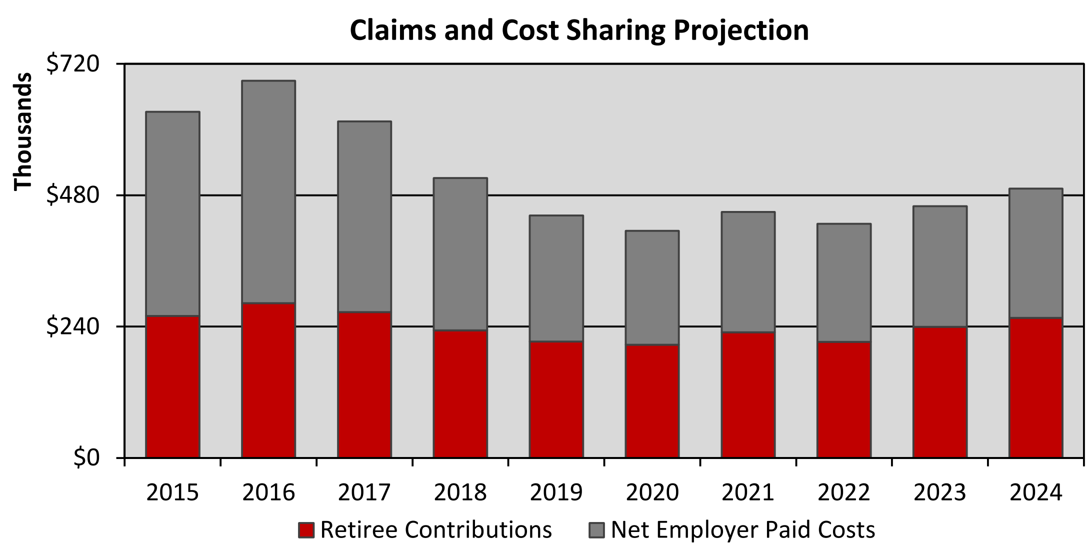
[7] Actuarial Accrued Liability (AAL) as of beginning of year was actuarially rolled-back from end of year AAL on a “no gain/loss” basis.

The below projections show the actuarially estimated employer-paid contributions for retiree health benefits for the next ten years. Results are shown separately for current /future retirees and gross claim costs/retiree contributions. These projections include explicit and implicit subsidies.

FYE	Current Retirees		Future Retirees[8]		Total	
2015	$	343,979	$	28,970	$	372,949
2016	$	374,938	$	31,577	$	406,515
2017	$	309,222	$	39,513	$	348,735
2018	$	204,805	$	73,483	$	278,288
2019	$	154,095	$	75,947	$	230,042
2020	$	107,984	$	100,198	$	208,182
2021	$	106,584	$	113,240	$	219,824
2022	$	86,380	$	129,221	$	215,601
2023	$	83,298	$	137,047	$	220,345
2024	$	72,048	$	163,899	$	235,947



FYE	Estimated Claims Costs		Retiree Contributions		Net Employer-Paid Costs	
2015	$	632,236	$	259,287	$	372,949
2016	$	689,138	$	282,623	$	406,515
2017	$	614,984	$	266,249	$	348,735
2018	$	511,146	$	232,858	$	278,288
2019	$	443,001	$	212,959	$	230,042
2020	$	414,899	$	206,717	$	208,182
2021	$	449,380	$	229,556	$	219,824
2022	$	427,563	$	211,962	$	215,601
2023	$	459,880	$	239,535	$	220,345
2024	$	492,153	$	256,206	$	235,947



[8] Projections for future retirees do not take into account future new hires.

Retiree Health Care Eligibility

AFSCME

AFSCME employees are eligible for retiree health care benefits until Medicare eligibility upon attainment of 15 years of service with the School District and meeting the Town's pension eligibility.

NEA (Teachers)

Teachers are eligible for health care benefits until Medicare eligibility[9] upon attainment of 15 years of service with the School District and meeting the State of Rhode Island pension eligibility.

Other groups

All non-AFSCME and non-NEA employees are now considered Individual Contract employees for valuation purposes. Effective July 1, 2015, Individual Contract employees are not eligible for post-retirement health benefits.

Town of Portsmouth Pension Eligibility

Pension eligibility requirements for general employees in the Town's pension plan are as follows:

1. Age 60 with 10 years of service (normal retirement)
2. Age 55 with 20 years of service (early retirement)

Rhode Island Pension Eligibility

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.

[9] Some existing retirees over the age of 65 who are not eligible for Medicare are allowed to remain in the School District's group health plans by paying the full cost of coverage, unless they are eligible for a subsidy provided by the School District.

Rhode Island Pension Eligibility (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.

Effective on July 1, 2015, employees are also eligible to retire upon attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with at least 33 years of service. These are additional eligibility requirements, which means that if employees are eligible to retire under the current eligibility requirements, they may do so.

Spouse Benefit

No spousal coverage is offered at retirement.

Explicit Subsidy

AFSCME

The following provisions became effective on July 1, 2012. Employees who are not retired by July 1, 2012 will receive the explicit subsidy as described below. Employees that have retired by July 1, 2012 will receive the explicit subsidy under the terms in effect at the time of retirement.

For those hired prior to July 1, 2012 with 15 years of service, the School District will subsidize the full cost of single coverage for the first 5 years of retirement. For those hired on or after July 1, 2012, the subsidy period will be one year for every 5 years worked, up to a maximum of 5 years of subsidy. The School District's subsidy is locked at the premium rate in effect in the first year of retirement and it will be discontinued at the earlier of (a) 5 years or (b) Medicare eligibility.

After 5 years, retirees who are not yet eligible for Medicare can stay on the plan until Medicare eligibility by contributing the full cost of coverage. Once they are eligible of Medicare, they will exit the School District's plan. If the retirees become eligible for Medicare within the five-year period, the School District will pay for 1 year of Medicare Plan 65 Supplement coverage.

There are several grandfathered current retirees who can stay in the School District's group health plan. They are enrolled in a Medicare Supplement plan. The School District's subsidies for these grandfathered retirees are limited to the Medicare Supplement plan premiums once they turn 65. The grandfathered employees that are not allowed to stay in the School District's health plan and enrolled in a Medicare Supplement plan must pay the full cost of the plan themselves, while the department pays nothing.

At Will

At Will employees are now considered individual contract employees, thus they are not eligible for retiree health benefits.

Individual Contracts

None; effective July 1, 2015, individual contract employees are not eligible for retiree health benefits. All employees that are non-NEA and non-AFSCME are included in this group.

Explicit Subsidy (Continued)

NEA (Teachers)

For those retiring before October 1, 2011, the School District will subsidize the full cost of single coverage for the first 9 years of retirement. The School District's subsidy is locked at the premium rate in effect in the first year of retirement and will continue to be paid at the same rate upon Medicare eligibility if it is within 9 years of retirement.

For those retiring on or after October 1, 2011, the School District will subsidize the cost of single coverage equal to the District co-share in effect for active employees on the date of retirement. Currently that is 81% of premium and scheduled to decrease to 80% in FY 2016. The School District's subsidy is locked at the premium rate in effect in the first year of retirement and will discontinue upon Medicare eligibility.

After 9 years, retirees can continue coverage under the School District's group health plan by contributing the full cost of coverage until Medicare eligibility. There are several grandfathered current retirees who are not eligible for Medicare. These retirees can stay in the School District's group health plan past Medicare eligibility.

Employees meeting the retiree health care eligibility have the option of taking a $4,500 lump sum cash incentive at retirement in lieu of the additional 3 years of subsidized individual coverage paid at the rate in effect in the first year of retirement. For those retiring before October 1, 2011, coverage will be paid at the rate in effect in the first year of retirement. For those retiring on or after October 1, 2011, the subsidy will be limited to the School District's co-share in effect at the time of retirement. Currently that is 81% of premium and scheduled to decrease to 80% in FY 2016. If employees elect the $4,500 lump sum cash incentive at retirement, they will have subsidized individual coverage for 6 years only (instead of 9). For GASB valuation purposes, we have assumed that 20% of employees elect the additional 3 years of coverage.

Effective September 1, 2013, employees are no longer permitted to purchase family coverage at retirement by paying the incremental cost of spousal coverage. Only individual coverage is offered to retirees.

Employees who decline health coverage at retirement are eligible to receive a one-time payment of $3,500.

Medical Benefit

Same benefit options are available to retirees as active employees.

The Town and the School District is in a collaborative pool with more than 30 entities in Rhode Island. All health plans are fully-insured and experience-rated. Each entity in the collaborative pool is viewed individually. Depending on its size the entity's experience is blended with the community pool (the community used is all of the municipal accounts in Rhode Island, not just the collaborative pool that they are a part of). In the case of Portsmouth (both District and School District), their final rates are based on 80% of their own experience and 20% of the community average.

There is no asset used to suppress premium rates increases. Premium rates are calculated to fund the expected costs (including claims and administrative costs).

The monthly premium rates by plan effective on July 1, 2015 are as shown below:

Health Plan	Single	Family
Healthmate Certified	$ 568.50	$ 1,468.42
Healthmate Non-Certified	$ 595.38	$ 1,537.79

Plan 65, a community-rated plan, is now the only plan available for post-65 retirees. No prescription drug coverage is included in this plan. The monthly premium rate effective on July 1, 2015 is $192.66.

Post-Medicare GASB Liability

There is post-Medicare GASB liability for current and future retirees as long as they continue to receive the School District's explicit subsidy. GASB liability no longer applies after the retirees begin paying the full cost of coverage.

GASB liability always applies to retirees who are not eligible for Medicare after reaching age 65. There are 8 retirees who are assumed to be ineligible for Medicare in this GASB valuation.

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

There are changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2013. Refer to the Actuary's Notes for details regarding these changes. For the current year GASB valuation, we have also updated the per capita costs. We expect to update health care trend rates and per capita costs again in the next full GASB valuation, which will be for the fiscal year ending June 30, 2017.

Measurement Date	June 30, 2015 with results actuarially rolled-back to July 1, 2014 on a "no loss/no gain" basis
Census Data	Census data was provided by the School District and it was collected as of August 2015. We have reviewed it for reasonableness and no material modifications were made.
Discount Rate	4.0% unfunded
Payroll Growth	3.0% per year (used for total covered payroll projection only)
Inflation Rate	3.0% per year
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar amount over fifteen years based on an open group
Employer Funding Policy	Pay-as-you-go cash basis
Health Care Coverage Election Rate	Active employees with current coverage: • Certified: 80% • Non-Certified: 100% Active employees with no coverage: 100% assumed to receive premium reimbursement benefit except for AFSCME and At Will employees. Inactive employees with current coverage: 100% Inactive employees with no coverage: 100% assumed to receive premium reimbursement benefit
Spousal Coverage	70% of employees are assumed to be married at retirement. Husbands are assumed to be three years older than wives. Spousal coverage and ages for current retirees is based on actual data.

Mortality

RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2014

Disability

None

Withdrawal Rate

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage.

Annual withdrawal rates are based on Saranson T-5 table. Sample annual rates are as shown below:

Age	Annual Rate
20	7.9%
25	7.7%
35	6.3%
45	4.0%
50	2.6%

Retirement Rate

Annual rates of retirement by group are as shown below:

Age	Certified	Non-Certified
50	10%	0%
51 – 54	5%	0%
55	15%	15%
56 – 58	10%	5%
59	10%	10%
60	25%	25%
61	10%	10%
62	20%	20%
63 – 64	10%	10%
65	100%	100%

Health Care Trend Rates

FYE	Medical / Rx
2016	9.0%
2017	8.5%
2018	8.0%
2019	7.5%
2020	7.0%
2021	6.5%
2022	6.0%
2023	5.5%
2024+	5.0%

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 with health care trend rates.

Per Capita Costs

Annual per capita costs were calculated based on the School District's monthly premium rates effective on July 1, 2015 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:

	Certified		Non-Certified	
Age	Male	Female	Male	Female
< 50	$ 6,800	$ 6,800	$ 7,100	$ 7,100
50 – 54	$ 6,900	$ 8,100	$ 7,200	$ 8,500
55 – 59	$ 9,300	$ 9,000	$ 9,700	$ 9,400
60 – 64	$ 11,900	$ 10,700	$ 12,400	$ 11,200
65 – 69*	$ 13,100	$ 11,300	$ 13,700	$ 11,900
70 – 74*	$ 14,200	$ 12,100	$ 14,900	$ 12,700
75+*	$ 16,500	$ 14,000	$ 17,200	$ 14,700

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.

* The over 65 per capita costs are only applicable to current retirees who are not eligible for Medicare.

Annual per capita costs for Plan 65 retirees is $2,312. This cost is assumed to increase with 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 future retired Teacher under 65.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B = 19% x A	C = A - B
Retiree	$ 568.50	$ 108.02	$ 460.48
Spouse[10]	N/A	N/A	N/A

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 Teacher.

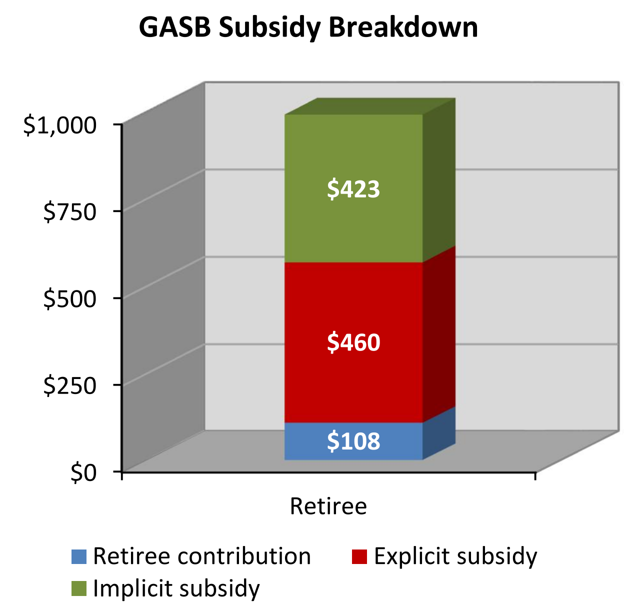
	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 991.67	$ 568.50	$ 423.17
Spouse[6]	N/A	N/A	N/A

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 male 60 – 64 future retired Teacher.

	Retiree		Spouse[6]	
Retiree contribution	$	108.02	$	N/A
Explicit subsidy	$	460.48	$	N/A
Implicit subsidy	$	423.17	$	N/A
Total monthly cost	$	991.67	$	N/A



[10] Employees are not allowed to purchase family coverage at retirement.

Actives eligible for retiree health benefits AND with coverage	*Single*	*Family*	*Total*	*Avg. Age*	*Avg. Svc*	*Salary*
Healthmate Certified	39	136	175	44.6	12.8	$ 12,705,259
Healthmate Non-Certified	10	45	55	51.1	9.8	$ 1,895,024
Total eligible actives with coverage	**49**	**181**	**230**	**46.2**	**12.1**	**$ 14,600,283**

Actives eligible for retiree health benefits AND without coverage	*Total*	*Avg. Age*	*Avg. Svc*	*Salary*
NEA	20	51.7	7.1	$ 491,957
AFSCME	31	43.5	9.9	$ 1,961,905
Total eligible actives without coverage	**51**	**46.7**	**8.8**	**R 2,453,862**

Actives not eligible for retiree health benefits	*Total*	*Avg. Age*	*Avg. Svc*	*Salary*
Individual Contract with coverage	17	47.3	9.3	$ 1,633,119
Individual Contract without coverage	3	44.1	8.7	$ 321,310
Total ineligible actives	**20**	**46.9**	**9.2**	**$ 1,954,429**

Teachers who currently have no coverage are assumed to receive the premium reimbursement benefit at retirement. They have been included in the GASB valuation. AFSCME who currently have no coverage are assumed not to elect coverage at retirement. They have been excluded from the GASB valuation.

Active employees who are not eligible for retiree health benefits are excluded from the GASB valuation.

Retirees with coverage	*Single*	*Family*	*Total*	*Avg. Age*
Healthmate Certified	39		39	63.7
Healthmate Non-Certified	7		7	63.4
Plan 65	23		23	69.0
Total retirees with coverage	**69**	**0**	**69**	**65.4**

Active Age-Service Distribution

Including actives who are eligible for retiree health benefits only (with and 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									2
25 to 29		15	3								18
30 to 34	2	8	13	1							24
35 to 39	1	4	9	16	1						31
40 to 44	3	6	6	23	12	1					51
45 to 49	1	10	9	12	8	5	1				46
50 to 54	2	3	11	11	4	7	7				45
55 to 59	2	4	8	7	8	5	1				35
60 to 64		3	6	5	6	4		2			26
65 to 69					1		1				2
70 & up					1						1
Total	**12**	**54**	**65**	**75**	**41**	**22**	**10**	**2**	**0**	**0**	**281**

APPENDIX

Comparison of Participant Demographic Information

The active participants' number below may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

	As of July 1, 2013	*As of June 30, 2015*
Active Participants	318	301[11]
Retired Participants	99	69
Averages for Active		
Age	45.3	46.3
Service	10.2	11.3
Averages for Inactive		
Age	65.0	65.4

[11] Includes active employees who are not eligible for retiree health benefits. Refer to Summary of Plan Participants section for breakdown of actives who are eligible and ineligible for retiree health benefits.

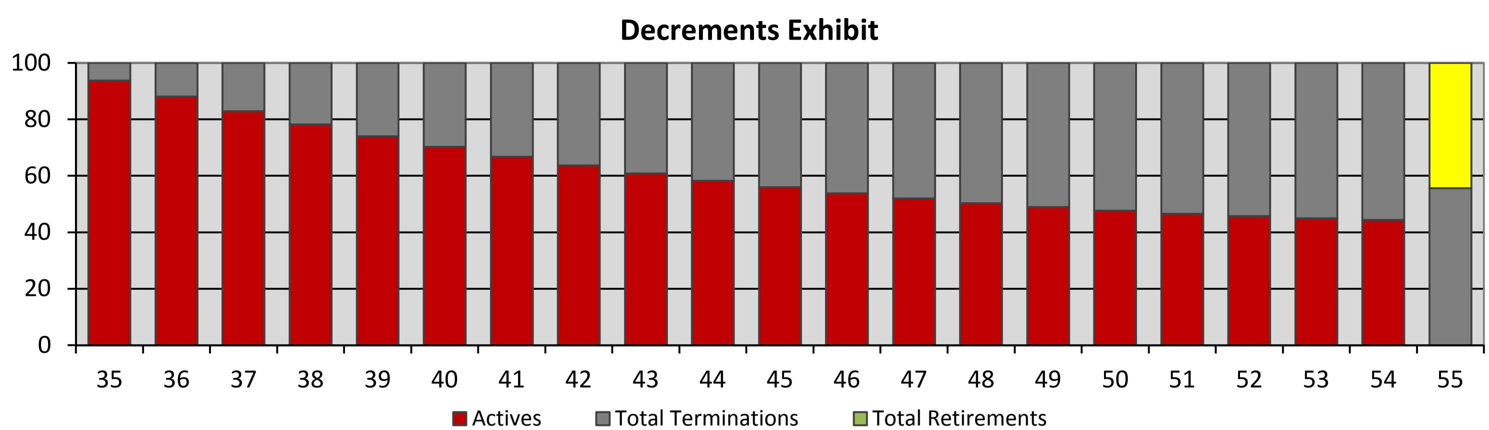
Glossary

Decrements Exhibit

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 44.430 employees out of the original 100 are expected to retire and could elect retiree health benefits at age 55.

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
35	100.000	6.276	0.000	6.276
36	93.724	5.677	0.000	5.677
37	88.047	5.136	0.000	5.136
38	82.911	4.648	0.000	4.648
39	78.262	4.209	0.000	4.209
40	74.053	3.814	0.000	3.814
41	70.239	3.456	0.000	3.456
42	66.783	3.131	0.000	3.131
43	63.652	2.835	0.000	2.835
44	60.817	2.564	0.000	2.564
45	58.253	2.316	0.000	2.316

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
46	55.938	2.085	0.000	2.085
47	53.853	1.866	0.000	1.866
48	51.987	1.656	0.000	1.656
49	50.331	1.452	0.000	1.452
50	48.880	1.253	0.000	1.253
51	47.627	1.060	0.000	1.060
52	46.567	0.877	0.000	0.877
53	45.690	0.707	0.000	0.707
54	44.983	0.553	0.000	0.553
55	44.430	0.000	44.430	44.430

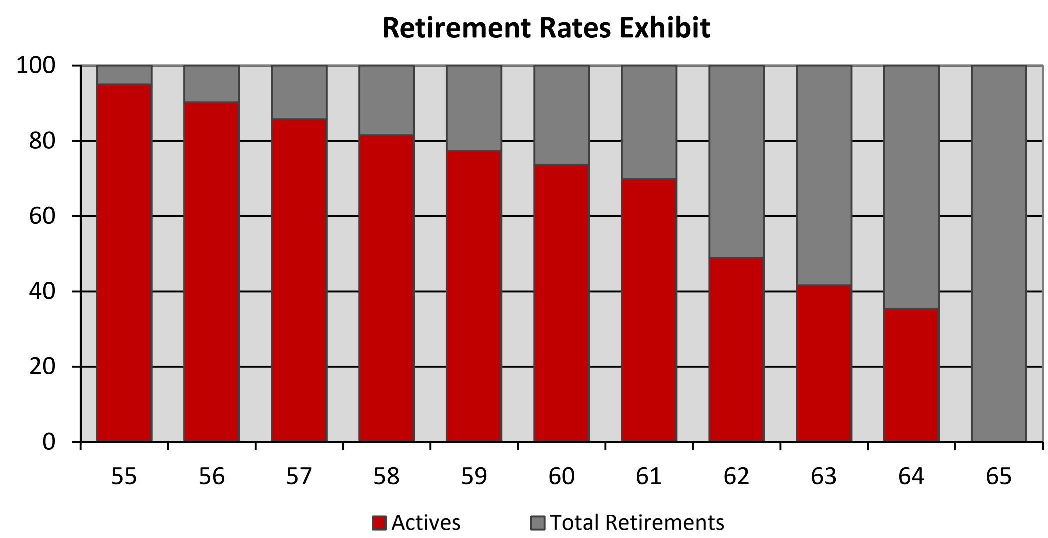


* The above rates are illustrative rates and are not used in our GASB calculations.

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	5.0%	5.000	95.000
56	95.000	5.0%	4.750	90.250
57	90.250	5.0%	4.513	85.738
58	85.738	5.0%	4.287	81.451
59	81.451	5.0%	4.073	77.378
60	77.378	5.0%	3.869	73.509
61	73.509	5.0%	3.675	69.834
62	69.834	30.0%	20.950	48.884
63	48.884	15.0%	7.333	41.551
64	41.551	15.0%	6.233	35.318
65	35.318	100.0%	35.318	0.000



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

Illustration of GASB Calculations

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

I. Facts

1. The employer provides subsidized retiree health coverage worth $100,000 to employees retiring at age 55 with 25 years of service. The employer funds for retiree health coverage on a pay-as-you-go basis.

2. Employee X is age 50 and has worked 20 years with the employer.

3. Retiree health subsidies are paid from the general fund assets which are expected to earn 4.5% per year on a long-term basis.

4. Based on Employee X's age and sex he has a 98.0% probability of living to age 55 and a 95.0% probability of continuing to work to age 55.

II. Calculation of Present Value of Future Benefits

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

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

Illustration of GASB Calculations (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

Definitions

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.

Definitions (continued)

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.