The Retirement Plan for Employees of the Town of Portsmouth, Rhode Island

Actuarial Valuation and Review as of July 1, 2014

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November 21, 2014

Mr. John C. Klimm, Town Administrator
Town of Portsmouth
2200 East Main Road
Portsmouth, RI 02871

Dear Mr.Klimm:

We are pleased to submit this Actuarial Valuation and Review as of July 1, 2014. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2015 and later years and analyzes the preceding year's experience.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Town to assist in administering the Plan. The census information and financial information on which our calculations were based was prepared by the staff of the Town of Portsmouth. That assistance is gratefully acknowledged.

The measurements shown in this actuarial valuation may not be applicable for other purposes. 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.

The actuarial calculations were directed under the supervision of Kathleen A. Riley, FSA, MAAA, EA. She is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of her knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in her opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

By: __________________________________

Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary

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William J. Connolly, FCA, MAAA, EA
Consulting Actuary

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SECTION 1

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Purpose

This report has been prepared by Segal Consulting to present a valuation of the Retirement Plan for the Employees of the Town of Portsmouth, RI as of July 1, 2014. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The characteristics of covered active employees, inactive employees, and retired employees and beneficiaries as of July 1, 2014;
- The assets of the Plan as of June 30, 2014;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

1. The actuarial valuation report as of July 1, 2014 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected.
2. During the plan year ended June 30, 2014, the market value rate of return was 15.51%. Because the actuarial value of assets gradually recognizes market value fluctuations over a five-year period, the actuarial rate of return for the plan year ended June 30, 2014 was 11.41% resulting in an investment gain of $1.8 million. The actuarial value of assets as of June 30, 2014 was $42.9 million, or 91.7% of the market value of assets of $46.8 million. As of June 30, 2013, the actuarial value of assets was 95.1% of the market value.
3. As indicated in Section 2, Subsection B of this report, the total unrecognized investment gain as of June 30, 2014 is $3,898,518. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment losses derived from future experience. This implies that earning the assumed rate of investment return (net of expenses) per year on a market value basis will result in investment gains on the actuarial value of assets in the next few years.

4. We have changed the following assumptions with this valuation:
   - The assumed incidence of accidental disability for Police and Fire employees was increased from 50% to 100% of all disabilities.
   - Assumed rates of salary increases were changed from age-based rates (shown in Section 4, Exhibit III) to 3.5% per year for all ages.

   Changing these assumptions resulted in a decrease in the unfunded actuarial accrued liability of $203,891 and a decrease in the employer normal cost of $49,517.
5. This valuation reflects the following plan changes:
   - For Police, the Accidental Disability benefit was lowered from 72% to 67% of gross annual salary and the employee contribution rate increased form 8.0% to 9.0%;
   - The employee contribution rate increased from 6.5% to 10.0% for the Fire Deputy and Fire Chief;
   - For Town Management, credited service is frozen as of June 30, 2014 and employee contributions cease and for retirements effective on or after July 1, 2013, the COLA was changed from 3.0% commencing on the January 1st following the first anniversary of retirement to 1.7% commencing on the January 1st following the fifth anniversary of retirement; and
   - For Public Works, the employee contribution rate decreased from 5.5% to 4.0% and credited service is limited to the greater of service as of July 1, 2013 or 10 years.

   These plan changes resulted in a decrease in the unfunded actuarial accrued liability of $879,278 and the employer normal cost of $45,477.
6. The unfunded liability was expected to increase from $35.7 million as of July 1, 2013 to $36.3 million as of July 1, 2014. The actual unfunded liability as of July 1, 2014 was $35.4 million. The $0.9 million decrease from the expected unfunded liability was due to the investment gain on an actuarial basis and the assumption and plan changes noted above, partially offset by a miscellaneous loss of $2.0 million due to salary increases greater than expected and a clarification in the application of the proration formula for the School department benefit.
7. The recommended contribution for the fiscal year ended June 30, 2015 is the budgeted amount of $3,948,654. The results of this valuation are used to determine the Actuarially Determined Contribution for the fiscal year ending June 30, 2016 of $3,623,290. This contribution is comprised of a projected employer normal cost payment and a 25-year level payment on the projected July 1, 2015 unfunded actuarial accrued liability.

8. On a market value basis, the funded ratio has increased from 54.8% as of July 1, 2013 to 59.8% as of July 1, 2014. On an actuarial basis, the funded ratio has increased from 52.1% as of July 1, 2013 to 54.8% as of July 1, 2014.
9. Section 5 shows the disclosure information required by GASB Statement No. 67. Statement No. 67 is effective for the year ended June 30, 2014.

Summary of Key Valuation Results

	2014	2013
Contributions for fiscal year beginning July 1:		
Actuarially Determined Contribution for fiscal 2015 and fiscal 2014	$4,054,721	$3,677,200
Actuarially Determined Contribution for fiscal 2016	3,623,290	N/A
Funding elements for plan year beginning July 1:		
Normal cost, including administrative expenses	$1,302,913	$1,360,484
Market value of assets	46,829,397	40,819,798
Actuarial value of assets	42,930,879	38,816,804
Actuarial accrued liability	78,330,009	74,524,823
Unfunded actuarial accrued liability	35,399,130	35,708,019
Funded ratio based on market value of assets	59.8%	54.8%
Funded ratio based on actuarial value of assets	54.8%	52.1%
Demographic data for plan year beginning July 1:		
Number of retired employees and beneficiaries	144	137
Number of inactive employees entitled to a return of their employee contributions	4	5
Number of inactive employees with a vested right to a deferred or immediate benefit	7	9
Number of active employees	164	165
Total compensation	$7,837,400	$7,744,997
Average compensation	47,789	46,939

Notes: 2013 results are based on the July 1, 2013 valuation report prepared by Milliman.
Fiscal 2014 Actuarially Determined Contribution from July 1, 2012 valuation prepared by Milliman.
Fiscal 2015 Actuarially Determined Contribution from July 1, 2013 valuation prepared by Milliman.
Budgeted amount for fiscal 2015 is $3,948,654.

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered employees, including active employees, inactive employees, employees and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A and B.

A historical perspective of how the member population has changed over the several valuations can be seen in this chart.

CHART 1

Member Population: 2011 – 2014

Year Ended June 30	Active Employees	Inactive Employees	Retired Employees and Beneficiaries	Ratio of Non-Actives to Actives
2011	189	14	109	0.65
2012	178	13	121	0.75
2013	165	14	137	0.91
2014	164	11	144	0.95

Note: Participant counts prior to 2014 are from the prior actuary's reports.

Active Employees

Plan costs are affected by the age, years of service and compensation of active employees. In this year's valuation, there were 164 active employees with an average age of 46.9, average years of service of 10.5 years and average compensation of $47,789. The 165 active employees in the prior valuation had an average age of 45.5, average service of 9.2 years and average compensation of $46,939.

Among the active employees, there were no employees with unknown age and/or service information.

Inactive Employees

In this year's valuation, there were seven employees with a vested right to a deferred or immediate vested benefit and four employees entitled to a return of their employee contributions.

These graphs show a distribution of active employees by age and by years of service.

CHART 2

Distribution of Active Employees by Age as of June 30, 2014

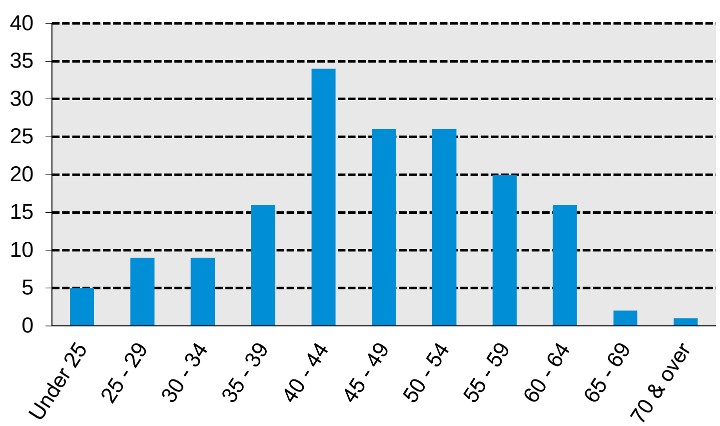
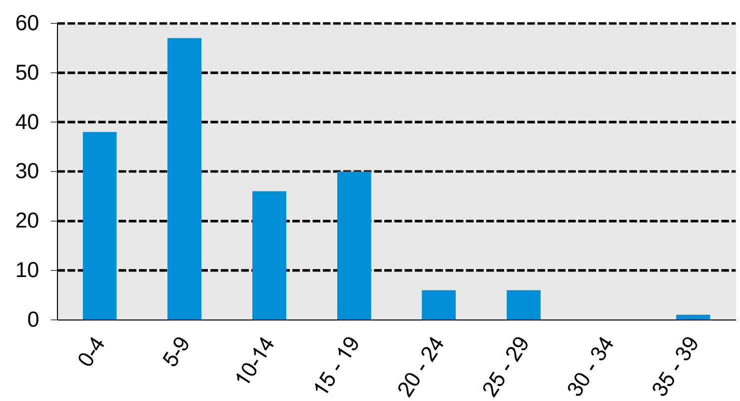


CHART 3

Distribution of Active Employees by Years of Service as of June 30, 2014



Retired Employees and Beneficiaries
As of June 30, 2014, 136 retired employees and 8 beneficiaries were receiving total monthly benefits of $327,316. For comparison, in the previous valuation, there were 128 retired employees and 9 beneficiaries receiving monthly benefits of $308,325.

These graphs show a distribution of the current retired employees and beneficiaries based on their monthly amount and age, by type of pension.

CHART 4

Distribution of Retired Employees and Beneficiaries by Type and by Monthly Amount as of June 30, 2014

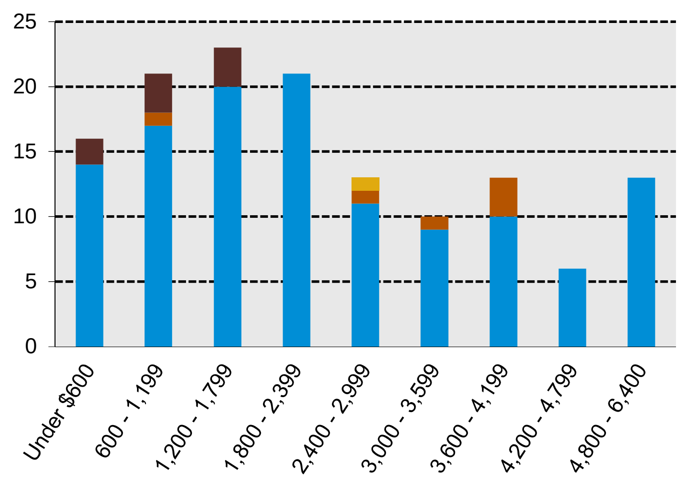
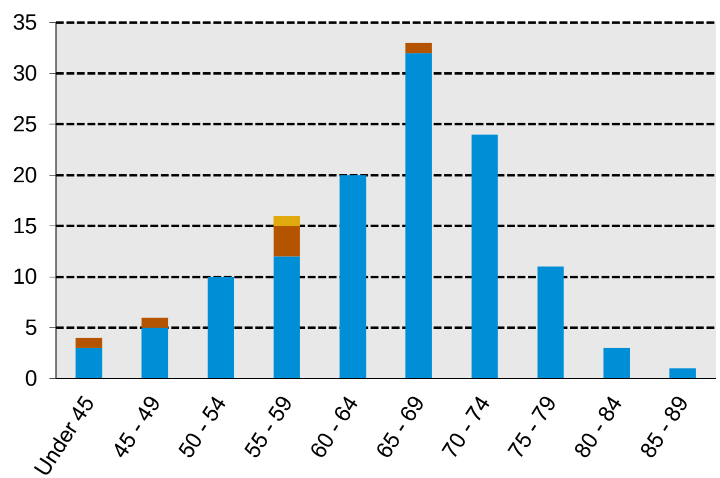


CHART 5

Distribution of Retired Employees and Beneficiaries by Type and by Age as of June 30, 2014



Beneficiaries
Ordinary Disability
Accidental Disability
Normal

B. FINANCIAL INFORMATION

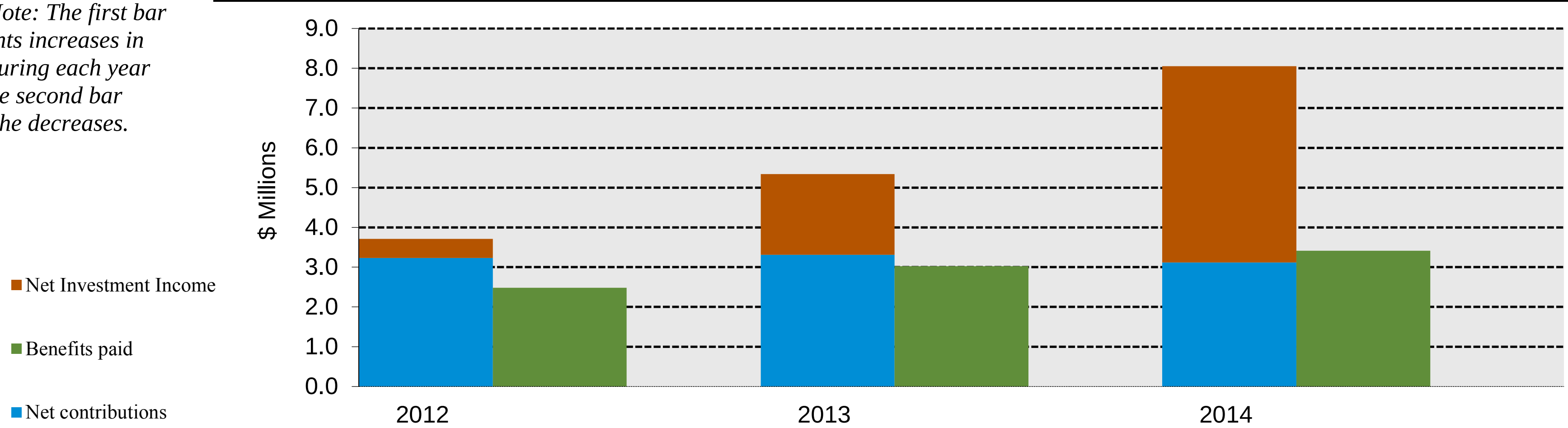
Retirement plan funding anticipates that, over the long term, both contributions (less administrative expenses) and net investment earnings (less investment fees) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits C and D.

The chart depicts the components of changes in the actuarial value of assets over the last three years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6

Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2012 – 2014



It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The chart shows the determination of the actuarial value of assets as of the valuation date.

CHART 7

Determination of Actuarial Value of Assets for Year Ended June 30, 2014

1. Market value of assets, June 30, 2014			$46,829,397
	Original	Unrecognized	
2. Calculation of unrecognized return*	Amount	Return	
(a) Year ended June 30, 2014	$3,561,195	$2,848,956	
(b) Year ended June 30, 2013	2,742,672	1,645,602	
(c) Year ended June 30, 2012	-3,473,811	-1,389,524	
(d) Year ended June 30, 2011	3,967,418	793,484	
(e) Year ended June 30, 2010	1,530,881	0	
(f) Total unrecognized return			3,898,518
3. Preliminary actuarial value: (1) - (2f)			42,930,879
4. Adjustment to be within 20% corridor			0
5. Final actuarial value of assets as of June 30, 2014: (3) + (4)			$42,930,879
6. Actuarial value as a percentage of market value: (5) ÷ (1)			91.7%
7. Amount deferred for future recognition: (1) - (5)			$3,898,518

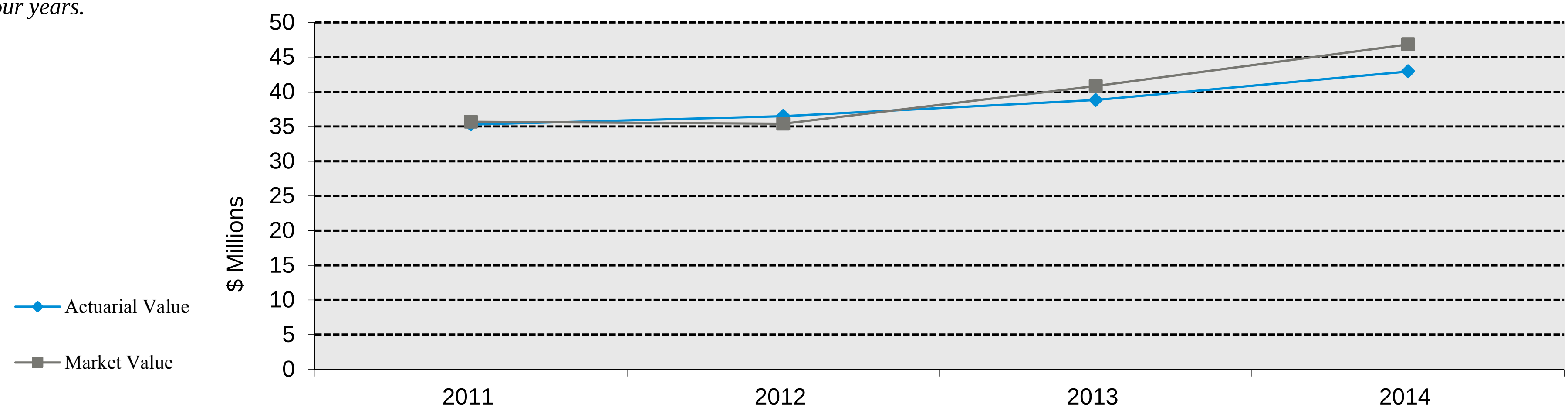
* *Unrecognized return is the difference between the total return and the expected return on a market value basis and is recognized over a five-year period.*

Both the actuarial value and market value of assets are representations of the Plan's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the change in the actuarial value of assets versus the market value over the past four years.

CHART 8

Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2011 – 2014



C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss for the year ended June 30, 2014 is $198,041. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past year.

CHART 9

Actuarial Experience for Year Ended June 30, 2014

1. Net gain from investments*	$1,800,876
2. Net loss from other experience	(1,998,917)
3. Net experience loss: (1) + (2)	$(198,041)

** Details in Chart 10*

Investment Rate of Return
A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Town of Portsmouth's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets is 6.75%. The actual rate of return on an actuarial basis for the 2014 plan year was 11.41%.

Since the actual return for the year was more than the assumed return, the Town of Portsmouth experienced an actuarial gain during the year ended June 30, 2014 with regard to its investments.

This chart shows the gain/(loss) due to investment experience.

CHART 10

Actuarial Value Investment Experience for Year Ended June 30, 2014

1.	Actual return	$4,410,989
2.	Average value of assets	38,668,346
3.	Actual rate of return: (1) ÷ (2)	11.41%
4.	Assumed rate of return	6.75%
5.	Expected return: (2) x (4)	$2,610,113
6.	Actuarial gain/(loss): (1) – (5)	$1,800,876

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the last three years.

Based upon future expectations, we have maintained the assumed rate of return of 6.75%.

CHART 11

Investment Return – Actuarial Value vs. Market Value: 2012 - 2014

Year Ended June 30	Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent
2012	$476,263	1.34%	-$1,043,944	-2.90%
2013	2,031,630	5.54	5,140,734	14.47
2014	4,410,989	11.41	6,306,511	15.51
Total	$6,918,882		$10,403,301	

Note: Each year's yield is weighted by the average asset value in that year.

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

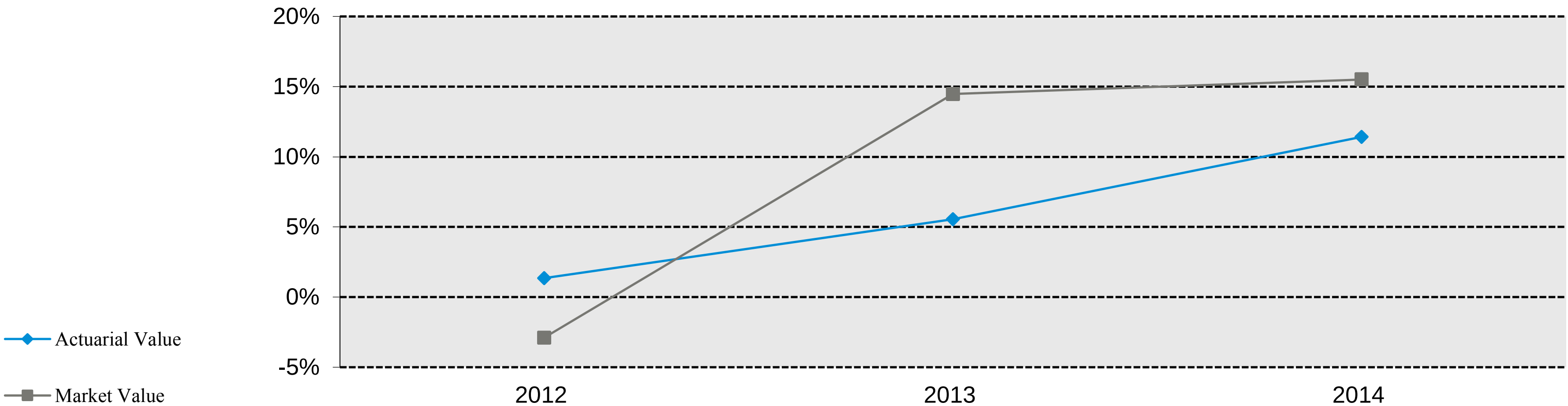
Administrative Expenses

Administrative expenses for the year ended June 30, 2014 totaled $61,112 compared to the assumption of $59,000. We have increased the assumption to $62,000 for the 2014 – 2015 plan year.

This chart illustrates how this leveling effect has actually worked over the years 2012 - 2014.

CHART 12

Market and Actuarial Rates of Return for Years Ended June 30, 2012 - 2014



Other Experience
There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net loss from this other experience for the year ended June 30, 2014 amounted to $1,998,817, which is 2.5% of the actuarial accrued liability. This loss is primarily due to salary increases greater than expected and a clarification in the application of the proration formula for the School department benefit.

This valuation reflects the following changes in actuarial assumptions:

- The assumed incidence of accidental disability for Police and Fire employees was increased from 50% to 100% of all disabilities.
- Assumed rates of salary increases were changed from age-based rates (shown in Section 4, Exhibit III) to 3.5% per year for all ages.

Changing these assumptions resulted in a decrease in the unfunded actuarial accrued liability of $203,891 and a decrease in the employer normal cost of $49,517.

This valuation reflects the following plan changes:

- For Police, the Accidental Disability benefit was lowered from 72% to 67% of gross annual salary and the employee contribution rate increased form 8.0% to 9.0%;
- The employee contribution rate increased from 6.5% to 10.0% for the Fire Deputy and Fire Chief;
- For Town Management, credited service is frozen as of June 30, 2014 and employee contributions cease and for retirements effective on or after July 1, 2013, the COLA was changed from 3.0% commencing on the January 1st following the first anniversary of retirement to 1.7% commencing on the January 1st following the fifth anniversary of retirement; and
- For Public Works, the employee contribution rate decreased from 5.5% to 4.0% and credited service is limited to the greater of service as of July 1, 2013 or 10 years.

These plan changes resulted in a decrease in the unfunded actuarial accrued liability of $879,278 and the employer normal cost of $45,477.

The unfunded liability was expected to increase from $35.7 million as of July 1, 2013 to $36.3 million as of July 1, 2014. The actual unfunded liability as of July 1, 2014 is $0.9 million lower than expected as detailed in Chart 13 below.

CHART 13

Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2014

1.	Unfunded actuarial accrued liability at beginning of year		$35,708,021
2.	Normal cost at beginning of year		1,360,484
3.	Total contributions		-3,181,268
4.	Interest		
	(a) For whole year on (1) + (2)	$2,502,124	
	(b) For half year on (3)	-105,103	
	(c) Total interest		2,397,021
5.	Expected unfunded actuarial accrued liability		$36,284,258
6.	Changes due to:		
	(a) Experience loss	$198,041	
	(b) Assumption changes	-203,891	
	(c) Plan changes	-879,278	
	(d) Total changes		-885,128
7.	Unfunded actuarial accrued liability at end of year		$35,399,130

D. RECOMMENDED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. The fiscal year ending June 30, 2015 contribution has been budgeted at $3,948,654. The results of this valuation are used to determine the Actuarially Determined Contribution for the fiscal year ending June 30, 2016 of $3,623,290. This contribution is comprised of a projected employer normal cost payment and a 25-year level payment on the projected July 1, 2015 unfunded actuarial accrued liability.

The funding schedule shown in Chart 15 shows the Actuarially Determined Contribution for the fiscal year ending June 30, 2106 through 2040.

The chart compares this valuation's recommended contribution with the prior valuation.

CHART 14

Recommended Contribution

	Year Beginning July 1			
	2014		2013	
	Amount	% of Compensation	Amount	% of Compensation
1. Total normal cost	$1,240,913	15.30%	$1,301,484	16.80%
2. Administrative expenses	62,000	0.76%	59,000	0.76%
3. Expected employee contributions	-355,512	-4.38%	325,754	-4.21%
4. Employer normal cost: (1) + (2) + (3)	$947,401	11.68%	$1,034,730	13.35%
5. Employer normal cost, adjusted for timing	970,894	11.97%	1,104,573	14.26%
6. Actuarial accrued liability	78,330,009		74,524,823	
7. Actuarial value of assets	42,930,879		38,816,802	
8. Unfunded actuarial accrued liability: (6) - (7)	$35,399,130		$35,708,021	
9. Payment on unfunded actuarial accrued liability, adjusted for timing	2,977,760	36.71%	2,950,148	38.09%
10. Total recommended contribution: (5) + (9)	3,948,654	48.68%	4,054,721	52.35%
11. Projected compensation	$8,111,709		$7,744,997	

Notes: Recommended contribution for year beginning July 1, 2014 is the amount previously budgeted.
Recommended contribution for the year beginning July 1, 2013 is the Annual Required Contribution amount shown in the July 1, 2013 valuation prepared by Milliman.
Recommended contributions are assumed to be paid at the beginning of each quarter with this valuation and at the end of the year with the prior valuation.

CHART 15

Funding Schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Unfunded Liability	(4) Actuarially Determined Contribution: (2) + (3)	(5) Increase	(6) Payroll	(7) Contributions as a % of Payroll: (4) / (6)	(8) Actuarial Accrued Liability	(9) Actuarial Value of Assets	(10) Total Unfunded Liability: (8) – (9)	(11) Funded Ratio: (9) / (8)
2015	$970,894	$2,977,760	$3,948,654	- -	$8,111,709	48.68%	$78,330,009	$42,930,879	$35,399,130	54.81%
2016	959,617	2,663,673	3,623,290	-8.24%	8,059,688	44.96%	81,094,114	48,017,834	33,076,279	59.21%
2017	938,328	2,604,286	3,542,614	-2.23%	7,926,267	44.69%	83,841,216	52,032,315	31,808,900	62.06%
2018	920,707	2,489,071	3,409,778	-3.75%	7,833,237	43.53%	86,512,503	56,651,514	29,860,989	65.48%
2019	898,453	2,425,424	3,323,877	-2.52%	7,671,692	43.33%	89,109,037	60,574,035	28,535,002	67.98%
2020	878,404	2,425,424	3,303,827	-0.60%	7,551,317	43.75%	91,563,137	63,628,513	27,934,624	69.49%
2021	861,631	2,425,424	3,287,055	-0.51%	7,426,883	44.26%	93,930,579	66,636,857	27,293,722	70.94%
2022	837,576	2,425,424	3,262,999	-0.73%	7,262,276	44.93%	96,172,731	69,563,172	26,609,559	72.33%
2023	813,361	2,425,424	3,238,784	-0.74%	7,092,746	45.66%	98,297,315	72,418,100	25,879,215	73.67%
2024	791,668	2,425,424	3,217,092	-0.67%	6,901,968	46.61%	100,273,138	75,173,566	25,099,572	74.97%
2025	764,724	2,425,424	3,190,148	-0.84%	6,707,126	47.56%	102,113,708	77,846,405	24,267,303	76.24%
2026	723,900	2,425,424	3,149,324	-1.28%	6,440,417	48.90%	103,758,305	80,379,449	23,378,856	77.47%
2027	678,880	2,425,424	3,104,303	-1.43%	6,149,500	50.48%	105,153,420	82,722,981	22,430,439	78.67%
2028	641,796	2,425,424	3,067,220	-1.19%	5,871,217	52.24%	106,325,815	84,907,811	21,418,004	79.86%
2029	601,511	2,425,424	3,026,935	-1.31%	5,577,256	54.27%	107,238,176	86,900,946	20,337,230	81.04%
2030	571,855	2,425,424	2,997,279	-0.98%	5,328,434	56.25%	107,933,552	88,750,049	19,183,503	82.23%
2031	524,775	2,425,424	2,950,199	-1.57%	4,999,109	59.01%	108,356,670	90,404,770	17,951,900	83.43%
2032	492,908	2,425,424	2,918,332	-1.08%	4,753,521	61.39%	108,533,199	91,896,035	16,637,164	84.67%
2033	459,990	2,425,424	2,885,413	-1.13%	4,506,566	64.03%	108,483,989	93,250,306	15,233,683	85.96%
2034	420,139	2,425,424	2,845,562	-1.38%	4,205,648	67.66%	108,169,405	94,433,938	13,735,467	87.30%
2035	394,104	2,425,424	2,819,528	-0.91%	4,003,340	70.43%	107,633,229	95,497,108	12,136,121	88.72%
2036	367,326	2,425,424	2,792,749	-0.95%	3,774,767	73.98%	106,847,114	96,418,294	10,428,820	90.24%
2037	348,351	2,425,424	2,773,775	-0.68%	3,612,733	76.78%	105,850,255	97,243,979	8,606,276	91.87%
2038	338,173	2,425,424	2,763,596	-0.37%	3,501,002	78.94%	104,677,009	98,016,299	6,660,710	93.64%
2039	333,164	2,425,424	2,758,588	-0.18%	3,435,274	80.30%	103,370,158	98,786,340	4,583,818	95.57%
2040	332,378	2,425,424	2,757,802	-0.03%	3,412,791	80.81%	101,974,802	99,608,066	2,366,736	97.68%
2041	332,633	- -	332,633	-87.94%	3,400,607	9.78%	100,508,154	100,508,154	- -	100.00%

Notes: Contribution is assumed to be paid at the beginning of each quarter.

Normal cost and payroll are based on a closed group projection, except for School Council 94, Town Non-Management, and employees eligible for a disability benefit only, for whom normal cost and payroll are projected to increase 2.75% per year.

Schedule reflects deferred investment gains.

Columns (8) through (11) are as of the beginning of the fiscal year.

EXHIBIT A

Table of Plan Coverage

Category	Year Ended June 30 2014	Year Ended June 30 2013	Change From Prior Year
Active employees in valuation:			
Number	164	165	-0.6%
Average age	46.9	45.5	N/A
Average years of service	10.5	9.2	N/A
Total compensation	$7,837,400	$7,744,997	1.2%
Average compensation	47,789	46,939	1.8%
Member contributions	4,741,591	4,939,014	-4.0%
Inactive employees entitled to a return of their employee contributions	4	5	-20.0%
Inactive employees with a vested right to a deferred or immediate vested benefit	7	9	-22.2%
Retired employees:			
Number in pay status	129	119	8.4%
Average age	64.3	58.6	N/A
Average monthly benefit	$2,316	$2,325	-0.4%
Disabled employees:			
Number in pay status	7	9	-22.2%
Average age	54.4	52.0	N/A
Average monthly benefit	$2,977	$2,628	13.3%
Beneficiaries in pay status:			
Number in pay status	8	9	-11.1%
Average age	76.1	70.0	N/A
Average monthly benefit	$956	$885	8.0%

Note: 2013 results are based on the July 1, 2013 valuation report prepared by Milliman.

EXHIBIT B

Employees in Active Service as of June 30, 2014
By Age, Years of Service, and Average Compensation

		Years of Service							
Age	**Total**	**0-4**	**5-9**	**10-14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**40 & over**
Under 25	5	1	4	- -	- -	- -	- -	- -	- -
	$47,660	$40,053	$49,562	- -	- -	- -	- -	- -	- -
25 - 29	9	1	4	4	- -	- -	- -	- -	- -
	$50,628	$40,053	$43,142	$60,757	- -	- -	- -	- -	- -
30 - 34	9	- -	2	7	- -	- -	- -	- -	- -
	$52,827	- -	$49,308	$53,832	- -	- -	- -	- -	- -
35 - 39	16	1	2	9	1	3	- -	- -	- -
	$58,149	$37,363	$64,529	$55,531	$48,661	$71,839	- -	- -	- -
40 - 44	34	3	7	8	10	5	1	- -	- -
	$54,130	$43,160	$30,377	$54,594	$58,431	$75,208	$101,199	- -	- -
45 - 49	26	- -	6	9	7	4	- -	- -	- -
	$42,989	- -	$29,214	$47,639	$41,133	$56,438	- -	- -	- -
50 - 54	26	1	4	9	2	7	1	2	- -
	$43,153	$37,563	$37,540	$21,751	$48,752	$63,666	$52,451	$71,440	- -
55 - 59	20	1	1	2	3	7	2	4	- -
	$42,890	$95,648	$38,302	$30,372	$27,706	$38,480	$34,547	$60,381	- -
60 - 64	16	- -	- -	8	3	3	2	- -	- -
	$42,976	- -	- -	$41,465	$46,102	$41,658	$46,311	- -	- -
65 - 69	2	- -	- -	1	- -	1	- -	- -	- -
	$28,558	- -	- -	$20,197	- -	$36,919	- -	- -	- -
70 & over	1	- -	- -	- -	- -	- -	- -	- -	1
	$54,963	- -	- -	- -	- -	- -	- -	- -	$54,963
Total	164	8	30	57	26	30	6	6	1
	$47,789	$47,520	$39,163	$45,501	$47,686	$56,474	$52,561	$64,068	$54,963

EXHIBIT C

Summary Statement of Income and Expenses on an Actuarial Value Basis

	Year Ended June 30, 2014		Year Ended June 30, 2013	
Net assets at actuarial value at the beginning of the year		$38,816,804		$36,496,792
Contribution income:				
Employer contributions	$2,792,576		$2,782,947	
Employee contributions	388,692		585,047	
Less administrative expenses	-61,112		-58,861	
Net contribution income		3,120,156		3,309,133
Net investment income		4,410,987		2,031,631
Total income available for benefits		$7,531,143		$5,340,764
Less benefit payments		-$3,417,068		-$3,020,752
Change in reserve for future benefits		$4,114,075		$2,320,012
Net assets at actuarial value at the end of the year		$42,930,879		$38,816,804

EXHIBIT D

Department Results as of July 1, 2014

	Category	School	Fire	Police	Public Works	Town	Total
1.	Demographics						
	Active employees in valuation	71	34	30	14	15	164
	Inactive employees	8	0	1	1	1	11
	Retired employees and beneficiaries in pay status	45	36	36	10	17	144
	Total	124	70	67	25	33	319
2.	Total normal cost	$244,655	$347,257	$491,413	$40,409	$117,179	$1,240,913
3.	Administrative expenses	12,224	17,350	24,551	2,019	5,856	62,000
4.	Expected employee contributions	94,019	78,961	139,708	10,637	32,187	355,512
5.	Employer normal cost: (2) + (3) – (4)	$162,860	$285,646	$376,256	$31,791	$90,848	$947,401
6.	Employer normal cost, adjusted for timing	166,898	292,729	385,586	32,579	93,101	970,894
7.	Employer normal cost as a percentage of compensation	6.9%	13.6%	19.2%	4.5%	9.2%	11.7%
8.	Actuarial accrued liability	$11,650,329	$25,572,756	$26,859,394	$3,484,273	$10,763,257	$78,330,009
9.	Actuarial value of assets	6,385,278	14,015,840	14,721,017	1,909,650	5,899,094	42,930,879
10.	Unfunded actuarial accrued liability: (7) – (8)	$5,265,051	$11,556,916	$12,138,377	$1,574,623	$4,864,163	$35,399,130
11.	Payment on unfunded actuarial accrued liability, adjusted for timing	442,894	972,163	1,021,074	132,457	409,172	2,977,760
12.	Recommended contribution: (6)+(11)	609,792	1,264,892	1,406,660	165,036	502,273	3,948,654
13.	Recommended contribution as a percentage of projected compensation	25.85%	60.32%	71.92%	23.15%	50.90%	48.68%
14.	Projected compensation	$2,358,889	$2,097,139	$1,955,872	$713,023	$986,786	$8,111,709

EXHIBIT E

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or actuarial assumptions: The estimates on which the cost of the Plan is calculated including:

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Withdrawal rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal cost: The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial accrued liability for actives: The value of all projected benefit payments for current members less the portion that will be paid by future normal costs.

Actuarial accrued liability for pensioners: The single-sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded actuarial accrued liability: The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There are many approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

Amortization of the unfunded actuarial accrued liability:	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
Investment return:	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:			
1.	Retired employees as of the valuation date (including 8 beneficiaries in pay status)		144
2.	Employees active during the year ended June 30, 2014 with total accumulated contributions of $4,741,591 and projected 2014 – 2015 compensation of $8,111,709		164
3.	Inactive employees with a vested right to a return of their employee contributions as of June 30, 2014		4
4.	Inactive employees with a vested right to a deferred or immediate benefit as of June 30, 2014		7
The actuarial factors as of July 1, 2014 are as follows:			
1.	Normal cost		$1,240,913
2.	Administrative expenses		62,000
3.	Expected employer contributions		-355,512
4.	Employer normal cost: (1) + (2) + (3)		$947,401
5.	Actuarial accrued liability		78,330,009
	Retired employees and beneficiaries	$53,197,378	
	Active employees	23,641,276	
	Inactive employees	1,491,355	
6.	Actuarial value of assets ($46,829,397 at market value as reported in the draft Annual Statement)		42,930,879
7.	Unfunded actuarial accrued liability: (5) – (6)		35,399,130
The determination of the recommended contribution is as follows:			
1.	Employer normal cost, adjusted for timing		$970,894
2.	Payment on unfunded actuarial accrued liability (final payment in fiscal 2040) as of July 1, 2014, adjusted for timing		2,977,760
3.	Recommended fiscal 2015 contribution: (1) + (2)		3,948,654
4.	Projected compensation as of July 1, 2014		8,111,709
5.	Total recommended contribution as a percentage of projected compensation: (3) ÷ (4)		48.68%

Notes: Recommended contribution is the amount previously budgeted.
Recommended contribution is assumed to be paid at the beginning of each quarter.

EXHIBIT II

Funded Ratio

A critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the Plan as calculated. High ratios indicate a well-funded plan with assets sufficient to cover the plan's actuarial accrued liabilities. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other factors.

The chart below depicts a history of the funded ratios for this plan. On a market value basis, the funded ratio has increased from 54.8% as of July 1, 2013 to 59.8% as of July 1, 2014. On an actuarial value basis, the funded ratio has increased from 52.1% as of July 1, 2013 to 54.8% as of July 1, 2014.

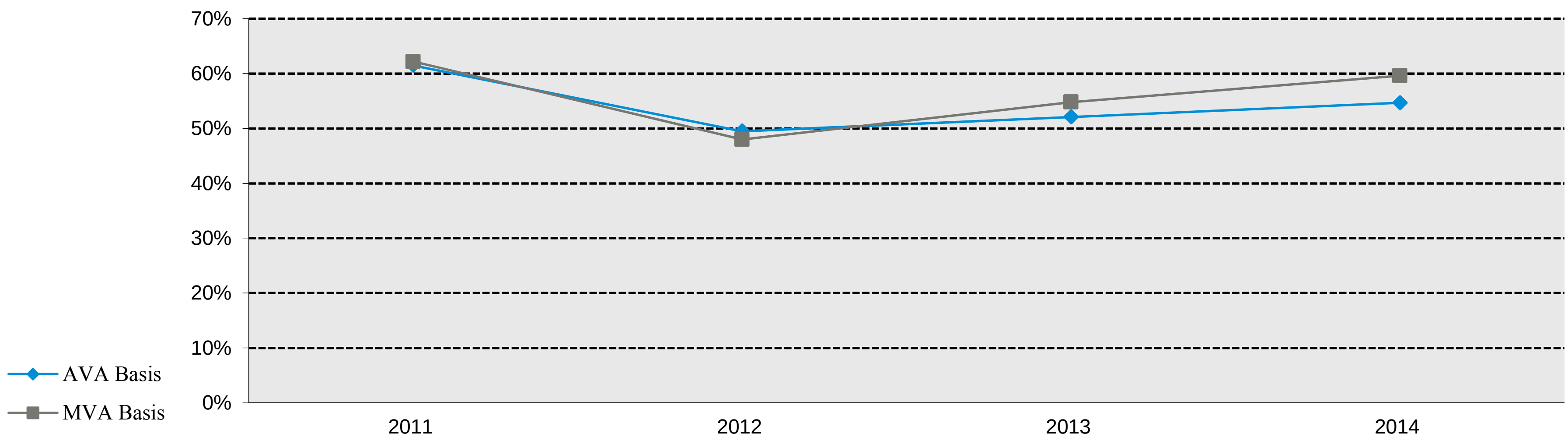


EXHIBIT III

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

Healthy: RP-2000 Combined Healthy Mortality Table projected generationally with Scale AA from 2000

Disabled Retiree: RP-2000 Disabled Mortality Table

The RP-2000 Combined Healthy Mortality Table and the RP-2000 Disabled Mortality Table reasonably reflect the mortality of the Plan as of the measurement date. The RP-2000 Combined Healthy Mortality Table was then adjusted to future years using generational projection under Scale AA to reflect future mortality improvements. No mortality improvement was assumed for disabled retirees.

Termination Rates before Retirement:

Fire and Police Rate (%)

	Mortality		Disability		Withdrawal	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
20	0.03	0.02	0.09	0.05	9.87	14.87
25	0.04	0.02	0.13	0.09	6.87	9.87
30	0.04	0.03	0.18	0.15	4.87	6.87
35	0.08	0.05	0.25	0.23	3.87	4.87
40	0.11	0.07	0.35	0.27	2.65	3.65
45	0.15	0.11	0.47	0.44	1.50	2.50
50	0.21	0.17	0.68	0.66	0.16	1.16
55	0.36	0.27	1.14	1.06	- -	- -
60	0.67	0.51	1.72	1.23	- -	- -

Notes: Mortality rates do not reflect generational projection.
100% of the disability rates shown represent accidental disability (previously, 50%).

	School, Public Works and Town Rate (%)					
	Mortality		Disability		Withdrawal	
Age	Male	Female	Male	Female	Male	Female
20	0.03	0.02	0.01	0.02	9.92	14.92
25	0.04	0.02	0.02	0.02	6.92	9.92
30	0.04	0.03	0.02	0.04	4.92	6.92
35	0.08	0.05	0.03	0.07	3.92	4.92
40	0.11	0.07	0.06	0.11	2.78	3.78
45	0.15	0.11	0.10	0.16	1.69	2.69
50	0.21	0.17	0.18	0.27	0.47	1.47
55	0.36	0.27	0.36	0.48	0.08	0.08
60	0.67	0.51	0.63	0.58	- -	- -

Note: Mortality rates do not reflect generational projection.

Retirement Rates:

	Rate (%)	
Service	Police	Fire
20	25.0	20.0
21	15.0	10.0
22	5.0	10.0
23	5.0	10.0
24	5.0	10.0
25	50.0	10.0
26	50.0	10.0
27	50.0	30.0
28	50.0	30.0
29	50.0	30.0
30	100.0	100.0

	Rate (%)		
Age	School	Town Management/ Public Works	Town Non-Management
55	2.0	5.0	- -
56	2.0	5.0	- -
57	2.0	5.0	- -
58	2.0	5.0	- -
59	2.0	5.0	- -
60	30.0	10.0	10.0
61	5.0	10.0	10.0
62	35.0	15.0	15.0
63	35.0	15.0	15.0
64	10.0	15.0	15.0
65	10.0	50.0	50.0
66	10.0	50.0	50.0
67	10.0	100.0	100.0
68	30.0	- -	- -
69	30.0	- -	- -
70	100.0	- -	- -

Retirement Age for Inactive Vested Participants: Normal Retirement Age

Unknown Data for Participants: Same as those exhibit by participants with similar know characteristics

Family Composition: 85% of participants are assumed to be married. None are assumed to have dependent children. Females are assumed to be three years younger than their spouses.

Benefit Election: Monthly life annuity for School, Public Works and Town. 67.5% Joint and Survivor annuity for Police and Fire, in accordance with Section 45-21.3-1, General Laws of Rhode Island (1956).

Net Investment Return: 6.75% The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the Plan's target asset allocation.

Salary Increases: 3.5% per year. Previously,

Age	Rate (%)
25	6.50
30	5.00
35	4.50
40	4.25
45	4.00
50	3.75
55+	3.50

Interest on Employee Contributions: 5.0%

Administrative Expenses: $62,000 (previously, $59,000)

Defined Contribution Account Balance: Balances as of July 1, 2014 were provided by the Town and were assumed to earn 6.75% annually. Balances were converted to monthly benefits using valuation interest and mortality assumptions.

2013 – 2014 Salary: Salaries for benefits and contributions were provided by the Town. Salaries for new hires were annualized based on date of hire.

Cost-of-Living Increases: Cost-of-living increases for pensioners whose COLAs were based on 50% of the percentage salary increase received the previous July 1 by the active bargaining unit from which the employee retired are assumed to be 2% annually. Cost-of-living increases for all other pensioners were provided by the Town.

Actuarial Value of Assets:	Market value of assets as reported by the Town less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is age at date of hire. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary. Normal Cost is determined using the plan of benefits applicable to each member.

Changes in Assumptions:

This valuation reflects the following change in actuarial assumptions:

- The assumed incidence of accidental disability for Police and Fire employees was increased from 50% to 100% of all disabilities.
- Assumed rates of salary increases were changed to 3.5% per year from the following age-based rates:

Age	Rate (%)
25	6.50
30	5.00
35	4.50
40	4.25
45	4.00
50	3.75

EXHIBIT IV

Summary of Plan Provisions

This exhibit summarizes the major provisions of The Retirement Plan for Employees of the Town of Portsmouth, Rhode Island included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Plan Year:	Effective July 1, 2006: July 1 through June 30 Prior to July 1, 2006: January 1 through December 31
	Police
Normal Retirement Benefit:	
Service Requirement	20 years of credited service
Amount	60% of average monthly earnings plus 2% for each year beyond 20 years subject to a maximum of 70%. An employee's average monthly earnings are defined as the highest gross annual salary during the last three years of employment. Gross annual salary includes base salary and longevity, but excludes overtime, clothing allowance, holiday pay and any other forms of compensation. Employees hired on or after July 1, 2010 are not entitled to Normal Retirement Benefits.
Accidental Disability:	
Service Requirement	None.
Amount	67% (previously, 72%) of gross annual salary. For employees hired on or after July 1, 2010, this benefit will be offset by the actuarially equivalent benefit provided by the account balance from the defined contribution plan.

Ordinary Disability:	
Service Requirement	10 years of credited service
Amount	50% of highest consecutive two years average salary. For employees hired on or after July 1, 2010, this benefit is payable until Normal Retirement Date at which time the participant would begin taking distributions exclusively from the 401(a) plan.
Deferred Vested Benefit:	
Service Requirement	10 years of credited service
Amount	Normal Retirement Benefit payable at Normal Retirement Date, prorated if less than 20 years of service
Spouse's Pre-Retirement Death Benefit:	
Service Requirement	10 years of credited service
Amount	30% of final five year average earnings payable to the spouse plus 10% of final five year average earnings payable to each minor child under age 21. The maximum benefit payable is 50% of final five year average earnings. Employees hired on or after July 1, 2010 are not entitled to pre-retirement death benefits.
Cost of Living Adjustments:	Employees who retired on or after July 1, 2003 with 20 years of credited service receive a 3% COLA commencing on the January 1st following the first anniversary of retirement. Employees who retired prior to July 1, 2003 receive a COLA based on 50% of the percentage salary increase received the previous July 1 by the active bargaining unit employees in the department from which the employee retired. There is no COLA on a Deferred Vested Benefit or a Pre-Retirement Death Benefit.
Employee Contributions:	9.0% of gross annual earnings (Previously, 8.0%). No contributions for employees hired on or after July 1, 2010.

Normal Form of Payment:	Benefits will continue to the surviving spouse and dependent children of a deceased retired policeman in accordance with Section 45-21.3-1, General Laws of Rhode Island (1956). The surviving spouse will receive 67.5% of the participant's benefit until death or remarriage in which case dependent children will receive the benefit until age 18. On death, if there is no spousal benefit due, the estate will receive a refund of participant contributions in excess of any retirement payments received.
Credited Service:	Full years plus fractions thereof from date of hire to date of termination. An employee covered by the Municipal Retirement System who served as an elected official of the Town and other employees with 10 years of service will be given credited service for such service, not to exceed three years for elected officials and four years for others, provided the employee pays a lump sum amount equal to the full actuarial value of such credit as determined by the Retirement Board.
Changes in Plan Provisions:	The following plan changes are reflected in this valuation: ➤ Accidental Disability benefit was changed from 72% to 67% of gross annual salary. ➤ The employee contribution rate increased from 8.0% to 9.0%.

	Fire
Normal Retirement Benefit:	
Service Requirement	20 years of credited service
Amount	For service before July 1, 2013: 3% of average monthly earnings per year of credited service to a maximum of 20 years plus 2% for each year beyond 20 years. For service on or after July 1, 2013: 1% of average monthly earnings per year of credited service. Fire Deputy and Fire Chief: 3% of average monthly earnings per year of credited service to a maximum of 20 years plus 2% for each year beyond 20 years. The maximum benefit is 74% of average monthly earnings. An employee's average monthly earnings are defined as the highest gross annual salary during the last three years of employment. Gross annual salary includes base salary, longevity and E.M.T. bonus, but excludes overtime, clothing allowance, holiday pay and any other forms of compensation. Employees hired on or after July 1, 2013 are not entitled to Normal Retirement Benefits.
Accidental Disability:	
Service Requirement	None
Amount	66 ⅔% of gross annual salary. For employees hired on or after July 1, 2013, this benefit will be offset by the actuarially equivalent benefit provided by the account balance from the defined contribution plan.
Ordinary Disability:	
Service Requirement	10 years of credited service
Amount	50% of highest consecutive three years average salary. For employees hired on or after July 1, 2013, this benefit is payable until Normal Retirement Date at which time the participant would begin taking distributions exclusively from the 401(a) plan.

Deferred Vested Benefit:	
Service Requirement	10 years of credited service
Amount	Normal Retirement Benefit payable at Normal Retirement Date, prorated if less than 20 years of service.
Spouse's Pre-Retirement Death Benefit:	
Service Requirement	10 years of credited service
Amount	30% of final five year average earnings payable to the spouse plus 10% of final five year average earnings payable to each minor child under age 21. The maximum benefit payable is 50% of final five year average earnings. Employees hired on or after July 1, 2013 are not entitled to pre-retirement death benefits.
Cost of Living Adjustments:	Employees who retire on or after July 1, 2013 with 20 years of credited service receive a 1.7% COLA commencing on the January 1st following the fifth anniversary of retirement. Employees who retired on or after July 1, 2007 and before July 1, 2013 with 20 years of credited service receive a 3% COLA commencing on the January 1st following the first anniversary of retirement. Employees who retired prior to July 1, 2007 receive a COLA based on 50% of the percentage salary increase received the previous July 1 by the active bargaining unit employees in the department from which the employee retired. Fire Deputy and Fire Chief receive a 3% COLA, regardless of date of retirement. There is no COLA on a Deferred Vested Benefit or a Pre-Retirement Death Benefit.
Employee Contributions:	4.0% of base pay. Fire Deputy and Fire Chief: 10.0% (previously, 6.5%) of base pay. No contributions for employees hired on or after July 1, 2013.

Normal Form of Payment:	Benefits will continue to the surviving spouse and dependent children of a deceased retired policeman in accordance with Section 45-21.3-1, General Laws of Rhode Island (1956). The surviving spouse will receive 67.5% of the participant's benefit until death or remarriage in which case dependent children will receive the benefit until age 18. On death, if there is no spousal benefit due, the estate will receive a refund of participant contributions in excess of any retirement payments received.
Credited Service:	Full years plus fractions thereof from date of hire to date of termination. An employee covered by the Municipal Retirement System who served as an elected official of the Town and other employees with 10 years of service will be given credited service for such service, not to exceed three years for elected officials and four years for others, provided the employee pays a lump sum amount equal to the full actuarial value of such credit as determined by the Retirement Board.
Changes in Plan Provisions:	The following plan change is reflected in this valuation: ➤ The employee contribution rate for the Fire Deputy and Fire Chief increased from 6.5% to 10.0%.

	School
Normal Retirement Benefit:	
Age and Service Requirement	Age 60 with 10 years of credited service
Amount	**Council 94**: For service before October 1, 2013: 2.5% of average monthly earnings per year of credited service. For service on or after October 1, 2013: 1% of average monthly earnings per year of credited service. Benefit is reduced prorata if less than 20 years of service. School Council 94 employees hired after October 1, 2013 are not covered by this Plan. School Council 94 employees hired after July 1, 2012 and before October 1, 2013 were transferred to the defined contribution plan effective October 1, 2013. **Management and Non-Certified:** 2.5% of average monthly earnings per year of credited service. Benefit is reduced prorata for less than 20 years of service. An employee's average monthly earnings are defined as gross annual salary averaged over the highest three years of employment.
Early Retirement Benefit:	
Age and Service Requirement	Age 55 with 20 years of credited service
Amount	Normal Retirement Benefit multiplied by the ratio of credited service as of the Early Retirement Date to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date.
Ordinary Disability:	
Service Requirement	10 years of credited service
Amount	Accrued benefit as of the date of disability multiplied by the ratio of credited service as of the date of disability to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date.

Deferred Vested Benefit:	
Service Requirement	10 years of credited service
Amount	Normal Retirement Benefit payable at Normal Retirement Date, prorated if less than 20 years of service.
Spouse's Pre-Retirement Death Benefit:	
Service Requirement	10 years of credited service
Amount	100% Joint and Survivor benefit is payable to the spouse upon the death of the employee, prorated if less than 20 years and reduced for early retirement and payable no earlier than when the employee would be eligible to retire.
Cost of Living Adjustments:	
	Council 94: Effective July 1, 2007, employees who retire at age 55 with 20 years of credited service shall receive a 1.7% COLA beginning on the first anniversary of retirement. For retirements on or after October 1, 2013, the COLA commences on the fifth anniversary of retirement.
	Management and Non-Certified: Effective January 1, 2001 for School Management and July 1, 2002 for Non-Certified employees who retire at age 60 with 20 years of credited service or age 55 with 25 years of credited service, employees shall receive a 1.7% COLA.
	There is no COLA on a Deferred Vested Benefit or a Pre-Retirement Death Benefit.
Employee Contributions:	
	Council 94: 4% of gross annual salary.
	Management and Non-Certified: 6% of gross annual salary. 2% of gross annual salary for employees hired before July 1, 1991.
Normal Form of Payment:	Life annuity payable monthly.

Credited Service:	Full years plus fractions thereof from date of hire to date of termination. An employee covered by the Municipal Retirement System who served as an elected official of the Town and other employees with 10 years of service will be given credited service for such service, not to exceed three years for elected officials and four years for others, provided the employee pays a lump sum amount equal to the full actuarial value of such credit as determined by the Retirement Board.
Changes in Plan Provisions:	There were no changes in plan provisions reflected in this valuation.

	Town
Normal Retirement Benefit:	
Age and Service Requirement	**Non-Management:** Age 60 **Management:** 20 years of credited service
Amount	**Non-Management**: For service before July 1, 2013: 2.5% of average monthly earnings per year of credited service to a maximum of 27 years. For service on or after July 1, 2013, 1% of average monthly earnings per year of credited service. The maximum benefit is 67.5% of average monthly earnings. Benefit is reduced prorata if less than 20 years of service. **Management:** 3.0% of average monthly earnings per year of credited service for up to 20 years of service, plus 2.0% of average monthly earnings per year of credited service to a maximum of 74%. For benefit accrual purposes, credited service is frozen as of July 1, 2014. Benefit is reduced prorata for less than 20 years of service. An employee's average monthly earnings are defined as the highest annual salary (base salary and longevity for Non-Management) during the three years of employment.
Early Retirement Benefit:	
Age and Service Requirement	**Management:** Age 55 with 20 years of credited service
Amount	**Management:** Normal Retirement Benefit multiplied by the ratio of credited service as of the Early Retirement Date to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date. There is no Early Retirement Benefit for Non-Management employees.

Ordinary Disability:	
Service Requirement	10 years of credited service
Amount	Accrued benefit as of the date of disability multiplied by the ratio of credited service as of the date of disability to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date.
Deferred Vested Benefit:	
Service Requirement	10 years of credited service
Amount	Normal Retirement Benefit payable at Normal Retirement Date, prorated if less than 20 years of service.
Spouse's Pre-Retirement Death Benefit:	
Service Requirement	10 years of credited service
Amount	30% of final five-year average earnings payable to the spouse plus 10% of final five-year average earnings payable to each minor child under 21. The maximum benefit payable is 50% of final five-year average earnings.

Cost of Living Adjustments:

Non-Management: Employees who are members of PMEA and who retire on or after July1, 1998 at age 60 with 20 years of credited service receive a 2.0% COLA with a two-year waiting period from date of retirement. Effective July 1, 2003, the COLA commences the January 1st immediately following retirement. For retirements on or after July 1, 2013, the COLA is 1.7% and commences on the January 1st following the fifth anniversary of retirement.

Management: Employees who retire on or after July 1, 2002 with 20 years of credited service or age 55 with 25 years of service receive a 2.0% COLA with a one-year waiting period from date of retirement. Employees who retire on or after July 1, 2004 receive a 3.0% COLA commencing on the January 1st following the first anniversary of retirement. For retirements on or after July 1, 2013, the COLA is 1.7% commencing on the January 1st following the fifth anniversary of retirement.

There is no COLA on a Deferred Vested Benefit or a Pre-Retirement Death Benefit.

Employee Contributions:	**Non-Management:** Effective July 1, 2014, 6% of base salary. **Management:** No employee contributions after July 1, 2014.
Normal Form of Payment:	Life annuity payable monthly.
Credited Service:	Full years plus fractions thereof from date of hire to date of termination. An employee covered by the Municipal Retirement System who served as an elected official of the Town and other employees with 10 years of service will be given credited service for such service, not to exceed three years for elected officials and four years for others, provided the employee pays a lump sum amount equal to the full actuarial value of such credit as determined by the Retirement Board.
Changes in Plan Provisions:	The following plan changes are reflected in this valuation: ➤ For Management, credited service is frozen as of June 30, 2014 and employee contributions will cease. ➤ For Management retirements effective on or after July 1, 2013, the COLA was changed from 3.0% commencing on the January 1st following the first anniversary of retirement to 1.7% commencing on the January 1st following the fifth anniversary of retirement.

	Public Works
Normal Retirement Benefit:	
Age and Service Requirement	Age 60 with 10 years of credited service
Amount	For employees with less than 10 years of credited service at July 1, 2013 who were hired before June 30, 2010: 2.5% of average monthly earnings per year of credited service for a maximum of ten years (previously, no maximum). Benefit is reduced prorata if less than 20 years of service. For employees with 10 or more years of service as of June 30, 2013: 2.5% of average monthly earnings per year of credited service prior to July 1, 2013 (previously, included service after July 1, 2013) to a maximum of 67.5%. Benefit is reduced prorata if less than 20 years of service. An employee's average monthly earnings are defined as annual salary (base salary and longevity) averaged over the final five years of employment. Employees hired on or after July 1, 2010 are not entitled to Normal Retirement Benefits.
Early Retirement Benefit:	
Age and Service Requirement	Age 55 with 20 years of credited service
Amount	Normal Retirement Benefit multiplied by the ratio of credited service as of the Early Retirement Date to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date.
Ordinary Disability:	
Service Requirement	10 years of credited service
Amount	Accrued benefit as of the date of disability multiplied by the ratio of credited service as of the date of disability to the number of years the employee would have completed if he or she remained employed until Normal Retirement Date. For employees hired on or after July 1, 2013, this benefit will be offset by the actuarially equivalent benefit provided by the account balance for the defined contribution plan.

Deferred Vested Benefit:	
Service Requirement	10 years of credited service
Amount	Normal Retirement Benefit payable at Normal Retirement Date, prorated if less than 20 years of service.
Spouse's Pre-Retirement Death Benefit:	
Service Requirement	10 years of credited service
Amount	30% of final five-year average earnings payable to the spouse plus 10% of final five-year average earnings payable to each minor child under 21. The maximum benefit payable is 50% of final five-year average earnings. Employees hired on or after July 1, 2010 are not entitled to pre-retirement death benefits.
Cost of Living Adjustments:	Employees who retire on or after July 1, 1987 at age 60 with 20 years of credited service shall receive 50% of the percentage salary increase received the previous July 1 by the active bargaining unit employees in the department from which the employee retired. There is a two-year waiting period commencing on the January 1 following date of retirement. Employees who retire on or after July 1, 2013 receive a 1.7% COLA commencing on the fifth anniversary of retirement. There is no COLA on a Deferred Vested Benefit or a Pre-Retirement Death Benefit.
Employee Contributions:	
	For employees hired before June 30, 2010 who have 10 or more years of service as of July 1, 2013, effective July 1, 2014, 4.0% of annual salary. No employee contributions after July 1, 2013 for other employees.
Normal Form of payment:	Life annuity payable monthly.
Credited Service:	Full years plus fractions thereof from date of hire to date of termination. An employee covered by the Municipal Retirement System who served as an elected official of the Town and other employees with 10 years of service will be given credited service for such service, not to exceed three years for elected officials and four years for others, provided the employee pays a lump sum amount equal to the full actuarial value of such credit as determined by the Retirement Board.

Changes in Plan Provisions:	The following plan changes are reflected in this valuation: ➤ The employee contribution rate for employees decreased from 5.5% to 4.0%. ➤ Credited service is limited to the greater of service as of July 1, 2013 or 10 years.

EXHIBIT 1

General Information – "Financial Statements", Note Disclosures and Required Supplementary Information for a Single Employer Pension Plan

Plan membership. At June 30, 2014, pension plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	144
Inactive employees entitled to but not yet receiving benefits	11
Active employees	164
Total	319

EXHIBIT 2

Net Pension Liability

The components of the net pension liability of the Pension System at June 30, 2014 were as follows:

Total pension liability	$78,330,009
Plan fiduciary net position	46,829,397
Town's net pension liability	31,500,612
Plan fiduciary net position as a percentage of the total pension liability	59.78%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Healthy mortality rates based on RP-2000 Combined Healthy Mortality Table projected generationally with Scale AA from 2000. Disabled retiree mortality rates based on RP-2000 Disabled Mortality Table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	6.60%
International developed markets equity	7.10%
International emerging markets equity	9.40%
Core fixed income	2.20%
Real estate	4.40%

Discount rate: The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Town of Portsmouth’s contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Pension System, calculated using the discount rate of 6.75%, as well as what the Pension System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Net pension liability	$42,680,778	$31,500,612	$22,410,476

EXHIBIT 3

Schedules of Changes in the Pension System's Net Pension Liability – Last Ten Fiscal Years

	2014	2013	2012	2011	2010
Total pension liability					
Service cost	$1,389,334	(Historical information prior to implementation of GASB 67/68 is not required)			
Interest	4,915,100				
Changes of benefit terms	-879,278				
Differences between expected and actual experience	2,000,989				
Changes of assumptions	-203,891				
Benefit payments, including refunds of employee contributions	-3,417,068				
Net change in total pension liability	$3,805,186				
Total pension liability – beginning	74,524,823				
Total pension liability – ending (a)	$78,330,009				
Plan fiduciary net position					
Contributions – employer	$2,792,576				
Contributions – employee	388,692				
Net investment income	6,330,851				
Benefit payments, including refunds of employee contributions	-3,417,068				
Administrative expense	-61,112				
Net change in plan fiduciary net position	$6,033,939				
Plan fiduciary net position – beginning	40,795,458				
Plan fiduciary net position – ending (b)	$46,829,397				
Town's net pension liability – ending (a) – (b)	31,500,612				
Plan fiduciary net position as a percentage of the total pension liability	59.78%				
Covered employee payroll	$7,837,400				
Town's net pension liability as percentage of covered employee payroll	401.93%				

EXHIBIT 4

Schedule of Town of Portsmouth's Contributions to the Pension System – Last Ten Fiscal Years

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered Employee Payroll
2005	(Historical information prior to implementation of GASB 67/68 is not required)				
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014	$3,677,200	$2,792,576	$884,624	$7,837,400	35.63%

Note: Includes payroll for employees eligible for a disability benefit only.

EXHIBIT 5

Notes to Required Supplementary Information

Valuation date	Actuarial determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.
Methods and used assumptions to determine contribution rates:	
Actuarial cost method	Entry age
Amortization method	Level dollar closed
Remaining amortization period	27 years remaining for fiscal year ending June 30, 2014 contribution
Asset valuation method	Market value of assets as reported by the Town less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Inflation rate	2.75%
Projected salary increases	3.5% per year
Cost of living adjustments	Cost-of-living increases for pensioners whose COLAs were based on 50% of the percentage salary increase received the previous July 1 by the active bargaining unit from which the employee retired are assumed to be 2% annually.
Benefit changes:	This valuation reflects the following changes in plan provisions: ➤ For Police, the Accidental Disability benefit was lowered from 72% to 67% of gross annual salary and the employee contribution rate increased form 8.0% to 9.0%; ➤ The employee contribution rate increased from 6.5% to 10.0% for the Fire Deputy and Fire Chief; ➤ For Town Management, credited service is frozen as of June 30, 2014 and employee contributions cease and for retirements effective on or after July 1, 2013, the COLA was changed from 3.0% commencing on the January 1st following the first anniversary of retirement to 1.7% commencing on the January 1st following the fifth anniversary of retirement; and ➤ For Public Works, the employee contribution rate decreased from 5.5% to 4.0% and credited service is limited to the greater of service as of July 1, 2013 or 10 years.

Change in Assumptions

This valuation reflects the following changes in actuarial assumptions:

- The assumed incidence of accidental disability for Police and Fire employees was increased from 50% to 100% of all disabilities.
- Assumed rates of salary increases were changed to 3.5% per year from the following age-based rates:

Age	Rate (%)
25	6.50
30	5.00
35	4.50
40	4.25
45	4.00
50	3.75