GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

CITY OF WARWICK, RHODE ISLAND POLICE II PENSION FUND

ACTUARIAL VALUATION AS OF

JULY 1, 2014

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DISCUSSION

I. Purpose and Summary

This report presents the results of our July 1, 2014 actuarial valuation of the City of Warwick, Rhode Island Police II Pension Fund. The valuation was performed at the request of the City of Warwick for purposes of determining the employer and member contribution rates for the City's fiscal year beginning July 1, 2015.

The total contribution level for the 2015-2016 fiscal year is 43.68% of covered earnings as compared to 44.93% of covered earnings determined by the previous valuation. In accordance with the City's ordinances, two-thirds of the cost (or 29.12% of earnings) will be met by the City, with the remaining one-third (or 14.56%) contributed by covered active members.

The member contribution rate of 14.56% is a blended rate between Tier I and Tier II members were the difference between the two is a constant 3.77%. Based on this difference and the size of the current population of active members, that produces a member contribution rate of 15.15% for Tier I members and 11.38% for Tier II members.

The development of the valuation results is shown in Tables 1 through 9 and is described in more detail on the following pages.

II. Membership Data

The City furnished data for active and retired members as of December 31, 2013. The data was projected to July 1, 2014 for valuation purposes reflecting anticipated age, salary and benefit increases, with adjustment due to data questions response. Although we did not audit this data, we did review it for reasonableness and consistency with the data collected for the previous valuation (prepared as of July 1, 2013). Table 4 provides a distribution by age and service for active members. There were three inactive, non-retired member entitled to a future retirement benefit or a future refund.

III. Plan Provisions

A summary of the principal plan provisions recognized for purposes of the valuation is provided in Table 9. This plan covers members of the police department appointed on or after February 1, 1971. There were no material changes in plan provisions since the prior valuation for members currently in the plan. There were changes adopted for members who begin service after July 1, 2012, and those changes are described in Table 9.

IV. Assets

The City of Warwick furnished audited financial statements for the fiscal years ending June 30, 2014. Tables 3a, 3b, and 3c provide information about the composition of plan assets and the development of valuation assets.

The asset value used in the determination of the annual contribution level is set equal to the market value of assets, adjusted to phase in the difference between actual and expected investment return over five years, at 20% per year. As shown in Table 3c, the market value of assets on June 30, 2014 was $176,405,576 while the valuation assets were $163,070,867, or 92.4% of the market value.

As shown in Table 3b, the dollar-weighted rate of return on the market value of assets for FY 2014 was 15.71%, respectively. This return is net of all investment and administrative expenses.

V. Actuarial Methods and Assumptions

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

There were several changes to the assumptions and methods since the last actuarial valuation. Earlier last year, GRS performed an assumption review for the Employees' Retirement System of Rhode Island (ERSRI), which included a review of the economic and demographic experience of the Rhode Island Municipal Employees' Retirement System (MERS). The study examined the assumptions used for expected investment rate, inflation rate, retirement, mortality, termination, disability, salary increases, payroll growth, and other miscellaneous assumptions. ERSRI has adopted updated assumptions as a result of this analysis. While the City of Warwick Plans were not included in this analysis, we believe that the future experience of these plans, with regard termination, mortality, and compensation increases will be similar to those expected in other municipal retirement systems in Rhode Island.

Summary of Assumption Changes

- We recommend reducing the productivity component of the salary scale assumption by 0.25%, from 1.50% to 1.25%, above inflation for the Police and Fire Plans. This recommendation reflects a reduction in the spread between inflation and salary increases experienced in the overall economy and the expectation of lower future salary increases due to continued budgetary constraints for employers.
- In accordance with the observed experience, we are recommending small adjustments in the service-based promotional/longevity component of the salary scale for all employee groups
- In accordance with the observed experience, we are recommending small adjustments in the service-based promotional/longevity component of the salary scale for all employee groups.
- We recommend decreasing the rates of termination. This change would have a slightly negative impact on liabilities and contribution rates.
- We recommend slightly modifying the rates of disability for most groups based on the experience of the individual group.
- We recommend lowering the current marriage assumption from 95% to 80%.
- We recommend a small change to the asset smoothing method and the amortization policy to allow for the direct offsetting of gains and losses. This change will materially decrease the annual volatility in the contribution rates and allow for a more consistent liability measurement.

The net impact was a decrease of $3.9 million on the UAAL.

We believe the assumptions are internally consistent and are reasonable, based on the actual experience of the City of Warwick, Rhode Island Police II Pension Fund.

VI. Funding Policy

The plan is funded on an actuarially determined basis in accordance with Section 52-85 of the City's pension ordinances. Beginning with this valuation, actuarial valuations are performed every year for the purpose of determining the appropriate annual contribution level as a percentage of covered payrolls. The annual cost level determined as of July 1, 2014, when expressed as a percentage of payroll, is the contribution level required for the two following fiscal year (2015-2016). Changes in the rate of City and employee contributions go into effect on the July 1 following the valuation (July 1, 2015 for the contribution rate determined by this valuation).

The annual contribution level consists of the normal cost with interest plus a 20-year amortization of the unfunded actuarial accrued liability as of July 1, 1989 plus 30-year amortizations (25 years for valuations prior to July 1, 2003) of changes in the unfunded actuarial accrued liability attributable to plan amendments, changes in actuarial methods or assumptions, and actuarial experience gains and losses. The amortization provides payments that increase annually with the assumed rate of increase in base pay (3.50%). As shown on Table 2, there was one new amortization base related to experience loss added in this valuation.

VIII. Analysis of Changes

The plan experienced an actuarial gain of $12,449,163 over last year, almost entirely due to the gain on the actuarial value of assets and changes of assumptions.

The following shows a reconciliation of the contribution rate from the prior valuation to the new rate set by this valuation.

Contribution rate set by prior valuation	44.93%
Accelerated recognition of fresh start Base	6.83
Assumptions change	(1.09)
Demographic and payroll changes	(3.82)
Asset loss/(gain)	(3.17)
Contribution rate set by current valuation	43.68%

VIII. Future Expectations

With the changes in assumptions we recommended and the Board approved, the consolidation of all prior amortization bases into one single base that will be amortized over the same 25 year time period as the largest remaining base from the prior methodology. The new schedule reduces the rate of growth in the annual payment from 3.75% to 3.50%. While this process increases the City's contribution over the short term, it dramatically decreases the longer term contributions and removes all of the "spikes" that were anticipated in the prior methodologies.

The undersigned are available to answer any questions in connection with this valuation of the plan or the information presented in this report.

Sincerely,

Joseph P. Newton, FSA, EA, MAAA
Senior Consultant

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TABLES

Valuation Results

			July 1, 2014	July 1, 2013
A.	**Membership Data**			
	1.	Active members		
		a. Number	166	163
		b. Expected covered payroll for fiscal year beginning on valuation date	$ 12,212,862	$ 11,822,199
		c. Average pay	$ 73,571	$ 72,529
		d. Average attained age	40.3	39.8
		e. Average past service	13.3	12.8
	2.	Retired members and beneficiaries		
		a. Number	161	159
		b. Average benefit	$ 47,710	$ 46,701
		c. Average attained age	57.5	56.5
	3.	Inactive members (Vesting)		
		a. Number	3	3
		b. Average benefit	$ 21,595	$ 21,595
		c. Average attained age	43.9	42.9
B.	**Liabilities**			
	1.	Actuarial accrued liability		
		a. Active members	$ 62,963,860	$ 58,668,674
		b. Retired members and beneficiaries	122,177,054	122,496,174
		c. Inactive members	1,016,819	965,935
		d. Total	$ 186,157,733	$ 182,130,783
	2.	Valuation assets	$ 163,070,867	$ 147,587,524
	3.	Unfunded actuarial accrued liability [(1)(d)-(2)]	$ 23,086,866	$ 34,543,259
	4.	Funded Ratio [(2)/(1)(d)]	87.60%	81.03%
C.	**Determination of City Contribution**			
	1.	Normal cost	$ 3,880,639	$ 3,762,837
	2.	Amortization charges	$ 1,453,905	$ 1,548,710
	3.	Total annual contribution	$ 5,334,544	$ 5,311,547
	4.	Annual contribution as a percentage of covered payroll [(3) / A(1)(b)]	43.68%	44.93%
	5.	Annual City contribution as a percentage of payroll [2/3 x (4)]	29.12%	29.95%
	6.	Member contribution rate [(4) - (5)]	14.56%	14.98%
		a. Tier I Rate	15.15%	15.44%
		b. Tier II Rate	11.38%	11.67%

Summary of Amortization Bases

Date Established	Purpose	Initial Amount	Remaining Balance as of July 1, 2014	2014 - 2015 Amortization Payment *	Years Remaining as of July 1, 2014
7/14	Fresh Start, Offsetting of Prior Bases	23,086,866	$ 23,086,866	$ 1,453,905	25
	Total		$ 23,086,866	$ 1,453,905	

* Assuming payment made at the middle of the year.

Asset Information
Composition of Fund as of June 30, 2014

		Market Value	Percentage of Total
1.	Cash and equivalents	$ 1,567,571	0.9%
2.	Equities, including index funds	86,723,893	49.2%
3.	Fixed income investments	88,103,379	49.9%
4.	Receivables less payables	10,733	0.0%
5.	Total	$176,405,576	100.0%

Asset Information
Asset Reconciliation and Expected Returns

		FY 2011	FY 2012	FY 2013	FY 2014
1.	Beginning of year market value	118,078,696	142,030,000	140,550,250	154,786,889
2.	Contributions				
	a. City	2,651,567	2,750,667	3,165,799	3,322,236
	b. Member	1,325,783	1,375,334	1,582,900	1,661,118
	c. Total	3,977,350	4,126,001	4,748,699	4,983,354
3.	Benefits paid	(6,051,927)	(6,566,137)	(7,220,137)	(7,488,066)
4.	Net return	26,025,881	960,386	16,708,077	24,123,399
5.	End of year market value	142,030,000	140,550,250	154,786,889	176,405,576
6.	Net market return	22.24%	0.68%	11.99%	15.71%
7.	Expected market value				
	a. Beginning of year	118,078,696	142,030,000	140,550,250	154,786,889
	b. Net cash flow	(2,074,577)	(2,440,136)	(2,471,438)	(2,504,712)
	c. Earnings assumption	8.00%	7.50%	7.50%	7.50%
	d. Expected earnings	9,363,313	10,560,745	10,448,590	11,515,090
	e. Excess/(shortfall)	16,662,568	(9,600,359)	6,259,487	12,608,309

Asset Information
Development of Valuation Assets

1. Market value as of June 30, 2014 $ 176,405,576

2. Adjustment for investment gain/(loss) to be recognized:

Period	Investment Gain/(Loss) Different than Expected	Gain/(Loss) Not Yet Recognized	Adjustment
07/01/13-06/30/14	$ 12,608,309	80%	$ 10,086,647
07/01/12-06/30/13	6,259,487	60%	3,755,692
07/01/11-06/30/12	(9,600,359)	40%	(3,840,144)
07/01/10-06/30/11	16,662,568	20%	3,332,514
Total			$ 13,334,709

3. Valuation assets [(1) - (2)] $ 163,070,867

4. Actuarial value as a percentage of market 92.4%

Distribution of Active Members by Age and by Years of Service (Police II)
As of July 1, 2014

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.
Under 25	1	0	0	0	0	0	0	0	0	0	0	0	1
	$39,039	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$39,039
25-29	1	4	5	7	1	0	0	0	0	0	0	0	18
	$39,039	$47,925	$53,118	$55,700	$66,671	$0	$0	$0	$0	$0	$0	$0	$52,939
30-34	3	2	4	1	3	8	3	0	0	0	0	0	24
	$39,039	$44,548	$48,453	$59,042	$65,386	$72,418	$78,163	$0	$0	$0	$0	$0	$61,211
35-39	1	1	1	0	0	5	17	2	0	0	0	0	27
	$39,039	$40,967	$47,400	$0	$0	$72,908	$75,842	$79,674	$0	$0	$0	$0	$71,875
40-44	0	0	0	0	0	7	11	24	0	0	0	0	42
	$0	$0	$0	$0	$0	$70,933	$74,823	$84,426	$0	$0	$0	$0	$79,662
45-49	0	0	0	0	0	2	4	15	7	4	0	0	32
	$0	$0	$0	$0	$0	$72,308	$71,866	$79,457	$86,738	$84,225	$0	$0	$80,250
50-54	0	0	0	0	0	0	2	3	5	7	1	0	18
	$0	$0	$0	$0	$0	$0	$77,677	$89,311	$74,312	$86,087	$86,569	$0	$82,446
55-59	0	0	0	0	0	0	0	0	0	2	1	0	3
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$84,421	$119,302	$0	$96,048
60-64	0	0	0	0	0	0	0	0	0	0	0	0	0
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
65 & Over	0	0	0	0	0	0	0	1	0	0	0	0	1
	$0	$0	$0	$0	$0	$0	$0	$125,255	$0	$0	$0	$0	$125,255
Total	6	7	10	8	4	22	37	45	12	13	2	0	166
	$39,039	$45,966	$50,680	$56,118	$65,708	$72,047	$75,397	$83,792	$81,560	$85,258	$102,936	$0	$73,571

History of Investment Return Rates

Year Ending June 30 of	Market
(1)	(2)
2000	17.19%
2001	-13.52%
2002	-3.93%
2003	5.22%
2004	15.04%
2005	9.49%
2006	8.73%
2007	15.65%
2008	-4.92%
2009	-16.26%
2010	14.16%
2011	22.24%
2012	0.68%
2013	11.99%
2014	15.71%
Average Returns:	
Last 5 Years	12.73%
Last 10 Years	6.76%

 Table 6

Near Term Outlook

Valuation as of July 1,	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Market Value of Fund (in 000s)	Employer Contribution Rate	For Fiscal Year Ending June 30,	Covered Compensation	Employer Contributions	Employee Contributions	Benefit Payments and Refunds	Net External Cash Flow
(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)
2014	$ 23,086,866	87.6%	$ 176,405,576	29.1%	2015	$ 12,212,862	$ 3,658,159	$ 1,829,080	$ 8,240,790	$ (2,753,551)
2015	16,892,073	91.4%	186,781,052	25.9%	2016	12,537,266	3,650,852	1,825,426	8,879,810	(3,403,532)
2016	13,980,643	93.2%	197,260,774	24.6%	2017	12,799,254	3,311,594	1,655,797	9,516,073	(4,548,682)
2017	9,615,390	95.5%	207,339,158	22.8%	2018	13,073,662	3,210,891	1,605,446	10,182,053	(5,365,716)
2018	6,634,199	97.0%	217,326,302	21.4%	2019	13,375,858	3,042,562	1,521,281	10,863,925	(6,300,082)
2019	6,428,444	97.2%	227,093,711	21.0%	2020	13,704,702	2,933,720	1,466,860	11,575,065	(7,174,485)

These projections are based on the current funding policy and assumes that all current assumptions are met each year in the future.

Table 7

Schedule of Funding Progress

Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2009	$137,152,325	$ 139,554,358	$ 2,402,033	98.3%	$13,099,942	18.3%
July 1, 2011	140,644,601	162,563,786	21,919,185	86.5%	11,082,010	197.8%
July 1, 2013	147,587,524	182,130,783	34,543,259	81.0%	11,822,199	292.2%
July 1, 2014	163,070,867	186,157,733	23,086,866	87.6%	12,212,862	189.0%

Actuarial Methods and Assumptions

Actuarial Cost Method: *Entry Age Normal actuarial cost method:* Under this method, the normal cost is the amount calculated as the level percentage of pay necessary to fully fund each active member's prospective benefit from entry age to retirement age. The total actuarial accrued liability, which is re-determined for each individual member as of each valuation date, represents the theoretical accumulation of all prior years' normal costs for the active members as if the present plan had always been in effect, plus the liability for any retirees or beneficiaries. The unfunded actuarial accrued liability represents the excess of the total actuarial accrued liability over the valuation assets.

Amortization Policy: The amortization of the UAAL is determined as a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. New experience losses are amortized over individual periods of 30 years. New gains are offset against and amortized over the same period as the current largest outstanding loss which in turn decreases contribution rate volatility.

Asset Valuation Method: The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses.

Actuarial Assumptions:

1. Interest 7.50% per year, net of investment and administrative expenses.

2 . Salary Increases The sum of (i) a 4.00% wage inflation assumption (composed of a 2.75% price inflation assumption and a 1.25% additional general increase), and (ii) a service-related component as shown below:

Police/Fire Employees		
Years of Service	Service-Related Component	Total Increase
1	10.00%	14.00%
2	9.00	13.00
3	7.00	11.00
4	4.00	8.00
5	2.50	6.50
6	3.00	7.00
7	0.50	4.50
8	0.50	4.50
9 or more	0.00	4.00

Salary increases are assumed to occur once a year, on July 1. Therefore the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. For employees with less than one year of service, the reported rate of pay is used rather than the fiscal year salary paid.

3. Mortality

A. Pre-retirement mortality (combined ordinary and duty):

a. Male employees: 115% of the RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA.

b. Female employees: 95% of the RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA.

c. Disabled males – 60% of the PBGC Table Va for disabled males eligible for Social Security disability benefits.

d. Disabled females – 60% of the PBGC Table VIa for disabled females eligible for Social Security disability benefits.

B. Pre-retirement mortality (combined ordinary and duty):

a. Male employees: 75% of RP-2000 Combined Healthy for Males with White Collar adjustments.

b. Female employees: 75% of RP-2000 Combined Healthy for Females with White Collar adjustments.

Sample rates are shown below:

Number of Deaths per 100		
Age	Males	Females
25	0.03	0.02
30	0.03	0.02
35	0.04	0.03
40	0.07	0.05
45	0.10	0.08
50	0.15	0.12
55	0.25	0.19
60	0.42	0.35
65	0.83	0.65
70	1.45	1.14

4. Disability

Sample rates per 1,000 active members are shown below. Ordinary disability rates are not applied to members eligible for retirement.

Age	Number of Disabilities per 1,000	
	Ordinary, Males and Females	Accidental, Males and Females
25	0.26	2.55
30	0.33	3.30
35	0.44	4.35
40	0.66	6.60
45	1.08	10.80
50	1.82	18.15
55	1.82	18.15
60	1.82	18.15
65	1.82	18.15

5 . Termination:

Termination rates (for causes other than death, disability, or retirement) are a function of the member's service. Termination rates are not applied to members eligible for retirement. Rates are shown below:

Service	Termination Rate	Service	Termination Rate
1	0.100000	11	0.012761
2	0.047300	12	0.011332
3	0.036903	13	0.010026
4	0.030821	14	0.008826
5	0.026506	15	0.007714
6	0.023158	16	0.006679
7	0.020424	17	0.005711
8	0.018111	18	0.004802
9	0.016108	19	0.003944
10	0.014342	20+	0.000000

6. Retirement Age Rates of retirement are based on an employee's length of service, as follows:

Police II Members	
Service	Retirement Election
25	50.0%
26	16.0%
27	18.0%
28	20.0%
29	20.0%
30+	35.0%

7. Benefit and Compensation Limits Benefit limits under Section 415 and compensation limits under Section 401(a)(17) of the Internal Revenue Code are assumed to have no impact on benefits earned under this plan.

8. Marriage / Dependents 80% of active employees are assumed to be married at retirement or death, with two children ages 11 and 13. Wives are assumed to be three years younger than their husbands. No remarriage is assumed.

9. Service Purchase None assumed.

10. Administrative and Investment Expenses None. The 7.50% investment return assumption represents the assumed return net of all investment and administrative expenses.

Outline of Principal Plan Provisions

1. *Effective Dates:*

a. Original Plan	February 1, 1971.
b. Most Recent Amendment	July 1, 1991.

2. *Eligibility:* All permanent members of the police department appointed on or after February 1, 1971.

3. *Tier:* Members who hire by June 30, 2012 are in Tier I, while members who join later are in Tier II.

4. *Final Average Salary(FAC):*
Tier I: Salary received in the highest year of creditable service.
Tier II: Average of the salaries received in the last three years of creditable service.
For pension purposes, annual salary includes regular, holiday, and longevity pay.

5. *Retirement:*

a. Eligibility	Tier I: Members who have completed 20 years of service may retire. Tier II: Members attain age 50 or older and with at least 25 years of service may retire.
b. Benefit Formula	Tier I: The annual benefit at retirement is equal to 50% of annual salary at retirement, plus 2% of annual salary for each year of service between 20 and 25, plus 3% of annual salary for each year of service between 25 and 30. Tier II: 2% of FAC times years of service.
c. Maximum Benefit	Tier I: 75% of FAC. Tier II: 70% of FAC.
d. Commencement Date	Retirement benefits commence as of the first payroll period after retirement.
e. Form of Payment	The annual benefit calculated in accordance with the formula in (b) above is payable semi-monthly for the remainder of the retired member's life, with 67.5% of the member's benefit payable for the lifetime of his surviving spouse.

6. Vested Termination:

a. Eligibility	Upon termination of employment after 10 years of service a member is eligible for a benefit deferred to retirement age.
b. Benefit Formula	2.5% of annual salary multiplied by full years of service at termination.
c. Commencement Date	Benefits commence as of normal retirement age.
d. Form of Payment	Same as retirement.

7. Disability Retirement:

a. Eligibility	A member who is unable to perform active duty as a result of disability which the Board of Public Safety finds to be permanently incapacitating is eligible to receive disability retirement benefits.
b. Benefit Formula	<u>Service Related</u> For <u>Tier I</u> members, the benefit would be equal to 66-2/3% of highest annual salary, reduced for each dollar of earned income in excess of the salary the member would earn as an active employee, to a minimum of 50% of salary. For <u>Tier II</u> members, the benefit would initially be the same, but once the member reached 25 years of service, including service while disabled, the benefit would be converted to a regular retirement benefit. (The age 50 minimum for retirement would not apply to this benefit.) <u>Non-Service Related</u> 50% of highest annual salary.
c. Commencement Date	Benefits commence as of the first payroll period after disability.
d. Form of Payment	Same as retirement.

8. Non-vested Termination of Employment:

A member who leaves employment prior to completing 10 years of service will receive a lump sum payment of his accumulated contributions without interest.

9. Death Before Retirement -- Survivor Annuity Benefits	
a. Eligibility	Death while actively employed.
b. Benefit Formula	
(1) Surviving spouse	Service Related. The annual benefit is 50% of the deceased member's highest annual salary, payable to the surviving spouse until death or earlier remarriage. Non-Service Related. 30% of the deceased member's highest annual salary, payable to the surviving spouse until death or earlier remarriage.
(2) Surviving children	10% of the deceased member's highest annual salary, payable to each surviving child until his 18th birthday (or for life if such child becomes permanently disabled prior to the member's death).
(3) Maximum family death benefit	Service Related. 75% of deceased's highest annual salary. Non-Service Related. 50% of deceased's highest annual salary.
c. Commencement Date	Benefits commence as of the first payroll period after death.
d. Form of Payment	Surviving spouse's and children's benefits are payable semi-monthly.
10. Death Before Retirement -- Lump Sum Refund of Contributions	A lump sum payment equal to the member's accumulated contributions without interest shall be paid to the estate of any active member who dies with no surviving spouse or children.
11. Retiree Cost-of-Living Increases	Tier I: All benefits in pay status are increased by 3% annually. Tier II: All benefits in pay status are increased by 75% of CPI, annual cap of 3%.

12. Service Purchase	For Tier I member, an active employee eligible to retire who has served in the U.S. armed forces may "purchase" additional years of service up to his number of years of military service, but no more than four years. A member may also purchase up to four years of prior civilian employment time with the City of Warwick. Either purchase would require the employee to contribute to the fund, at retirement, an additional year's contribution (at the then current contribution percentage) for each year of service purchased. However, the right to buy municipal service would be eliminated for Tier II members.
13. Employee Contributions	Members contribute a percentage of their covered earnings (regular, holiday, and longevity) equal to one third of the actuarially determined contribution rate.