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November 2, 2016

**BY E-MAIL & FIRST CLASS MAIL**  
**PERSONAL & CONFIDENTIAL**

Jason Parmelee, Finance Director  
Office of Finance Director  
Town of North Smithfield  
1 Main Street, P.O. 248  
Slatersville, RI 02876

Re: Town of North Smithfield  
Retiree Medical Actuarial Valuation under GASB #45  
For the Year Ended June 30, 2016

Dear Jason:

Enclosed are two copies (one bound and one unbound copy) of your FYE 2016 GASB #45 actuarial valuation report for your retiree medical and life program. The unbound report is to facilitate any additional copying you may need.

The GASB #45 Expense (the Annual OPEB Cost) for FYE 2016 is \$690,567. The projected OPEB Obligation as of June 30, 2016 is \$2,148,735.

Results broken down by Fund can be found on page 2A. Results based on +1% and -1% medical trend rate sensitivity can be found on page 2B. Results for FYE 2017 can be found on Page 3A.

For 2017, we modified (1) the mortality table in accordance with new actuarial guidelines, and (2) the health care trend rate.

Liabilities & Expense have decreased significantly since FYE 2014, primarily due to significant decreases in the medical premium rates (rather than expected increases) since FYE 2014. Good news for the Town.

Please give me a call if you have any questions.

Very truly yours,



Edward A. Echeverria, FSPA, MAAA, CPC, EA

EAE/lr

Encl.

**TOWN OF NORTH SMITHFIELD**

**RETIREE MEDICAL ACTUARIAL  
VALUATION**

**REPORT ON COMPLIANCE WITH  
GOVERNMENT ACCOUNTING STANDARDS BOARD  
STATEMENT #45  
ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYER  
FOR POSTEMPLOYMENT  
BENEFITS OTHER THAN PENSIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**PREPARED: November 2016**

01081078

November 2016

Town of North Smithfield  
1 Main Street, P.O. 248  
Slatersville, RI 02876

Dear Sir/Madam:

This report was prepared to provide management with the accounting for the Government Accounting Standards Board Statement Number 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) for the Retiree Health Valuation Under GASB #45 for the fiscal year ended June 30, 2016.

Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended June 30, 2016. The Annual OPEB Cost for the Town of North Smithfield is \$690,567.

In conducting the valuation, we relied on information supplied to us by the Town of North Smithfield. This information included participant data, the terms of the written and unwritten plan, premium rates and other policies and practices of plan. We have relied on this information as accurate, and applied estimates as necessary.

The discount rate used for this year is 4.0%. As requested, select results based on +1% and -1% medical trend sensitivity, have also been included, on page 2B.

To the best of our knowledge and belief, this valuation was conducted in accordance with generally accepted actuarial principles and practices and in accordance with our understanding of GASB #45 and the implementation guidelines published by the Government Accounting Standards Board. The employer may modify the presentation of these disclosures as needed. I am an Enrolled Actuary who satisfies the Qualifications Standards for Actuaries of the AAA that became effective January 1, 2008.

Very truly yours,



Edward A. Echeverria, FSPA, MAAA, CPC, EA  
Senior Actuary

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**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**EXECUTIVE SUMMARY OF RESULTS**

Valuation Date	<b><u>July 1, 2015</u></b>
Number of Plan Members:	
Active Participants	317
Retired Participants	<u>23</u>
Total	340
Average Age of Actives	45 yrs.
Average Credited Service of Actives	11 yrs.
Current Covered Payroll	\$ 18,682,246
Market value of Assets as of July 1	\$           0
Unfunded Accrued Liability	\$ 6,231,640
Annual Required Contribution (ARC)	\$ 739,664
OPEB Cost for the Year	\$ 690,567

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**

<b><u>VALUATION RESULTS - (Cost to Town)</u></b>	<b>(EPBO) Projected Benefits</b>	<b>(APBO) Proj. Unit Credit Accrued Liability</b>
1. Actuarial present values as of July 1, 2015:		
(a) Actives	\$ 8,031,976	\$3,516,282
(b) Retirees & Beneficiaries	<u>\$ 2,715,358</u>	<u>\$2,715,358</u>
(c) Total	\$10,747,334	\$6,231,640
2. Accrued liability as of July 1, 2015	\$ 6,231,640	
3. Actuarial value of assets, July 1, 2015	\$ -0-	
4. Unfunded accrued liability, July 1, 2015	\$ 6,231,640	
5. Normal cost As of July 1, 2015	\$ 296,579	
6. Amortization of unfunded accrued liability (level dollar/open, over 30 years, 22 yrs. remain)	\$ 414,636	
7. Interest (rounded) on Normal Cost (\$11,863) and Amortization (\$16,586)	\$ 28,449	
8. Annual Required Contribution (ARC) (5+6+7)	\$ 739,664	

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**  
**RESULTS BY FUND (4.0%)**

	<u>School</u>	<u>Police</u>	<u>Other Town</u>	<u>Total</u>
Accrued Liability	1,889,819	4,039,643	302,178	6,231,640
Assets (subt.)	0	0	0	
Unfunded Accrued Liability	1,889,819	4,039,643	302,178	6,231,640
Normal Cost	134,714	141,719	20,146	296,579
Amortization of UAL	125,743	268,787	20,106	414,636
Interest to end of year	10,419	16,420	1,610	28,449
Annual Required Contribution	270,876	426,926	41,862	739,664
Annual OPEB Cost	252,896	398,588	39,083	690,567
End of yr OPEB Obligation	723,810	1,298,783	126,142	2,148,735



TOWN OF NORTH SMITHFIELD  
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

SENSITIVITY ANALYSIS - MEDICAL TREND

	<u>VAL</u>	<u>+1%</u>	<u>-1%</u>
Accrued Liability	6,231,640	6,597,437	5,882,045
chg\$		365,797	(349,595)
chg%		5.9%	-5.5%
Normal Cost	296,579	325,822	269,145
chg\$		29,243	(27,234)
chg%		9.9%	-9.0%
Interest Cost	28,449	30,125	26,875
chg\$		1,676	(1,574)
chg%		5.9%	-5.5%

TOWN OF NORTH SMITHFIELD  
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST  
FOR THE YEAR ENDED JUNE 30, 2016

Actual contribution information is included below.

<u>Contribution rates:</u> Plan Members	Varies by employee class (See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 739,664
Interest on net OPEB obligation	74,005
Adjustment to annual required contribution (-)	123,102
Annual OPEB cost	\$ 690,567
Contributions made*	\$ 391,952
Increase in net OPEB obligation	\$ 298,615
Net OPEB obligation-beginning of year	\$ <u>1,850,120</u>
Net OPEB obligation-end of year	\$ <u>2,148,735</u>

\*Contributions made include proj. Medical and Dental premium payments of \$315,952 and "implicit subsidy" payment credit of \$76,000.

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**

**DEVELOPMENT OF THE OPEB COST**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Actual contribution information is included below.

<u>Contribution rates:</u> Plan Members	Varies by employee class (See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 793,881
Interest on net OPEB obligation	85,937
Adjustment to annual required contribution (-)	147,250
Annual OPEB cost	\$ 732,568
Contributions made*	\$ 412,000
Increase in net OPEB obligation	\$ 320,568
Net OPEB obligation-beginning of year	\$ <u>2,148,735</u>
Net OPEB obligation-end of year	\$ <u>2,469,303</u>

\*Contributions made include proj. Medical and Dental premium payments of \$332,000 and "implied subsidy" payment credit of \$80,000.

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**

**DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
**AND FUNDED RATIO (actual)**

Actuarial accrued liability (a)	\$ 6,231,640
Actuarial value of plan assets (b)	\$ 0
Unfunded actuarial accrued liability (a - b)	\$ 6,231,640
Funded ratio (b / a)	0.0%
Covered payroll (c)	\$ 18,682,246
Unfunded actuarial accrued liability as percentage of covered payroll [(a - b) / c]	33%

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**

**DEVELOPMENT OF OPEB COST AND OPEB OBLIGATION**  
**FOR THE LAST THREE YEARS (actual)**

<b><u>Year</u></b> <b><u>Ended</u></b>	<b><u>Annual</u></b> <b><u>OPEB Cost</u></b>	<b><u>Percentage of</u></b> <b><u>OPEB Cost</u></b> <b><u>Contributed</u></b>	<b><u>Net OPEB</u></b> <b><u>Obligation</u></b>
6/30/2014	\$756,422	71.8%	\$1,609,518
6/30/2015	\$809,602	70.3%	\$1,850,120
6/30/2016	\$690,567	56.8%	\$2,148,735

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**RESULTS AND DISCLOSURES**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS (actual)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b - a) / c]</b>
7/1/2011	\$0	6,291,808	6,291,808	0.0%	14,929,351	42.1%
7/1/2013	\$0	7,141,640	7,141,640	0.0%	17,746,038	40.2%
7/1/2015	\$0	6,231,640	6,231,640	0.0%	18,682,246	33.4%

*Pre-2013 entries were provided from FYE 2013 OPEB note.*

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**CONSIDERATIONS**

**NEW STATEMENT**

Government Accounting Standards Board Statement No. 45 (GASB #45) was first applied by the Town of North Smithfield beginning with the fiscal year ended June 30, 2008. GASB #45 establishes standards for the measurement, recognition and display of the expense and liabilities of your retiree medical program (Other Post-Employment Benefits; "OPEB"). As a result, reporting of expense and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the Annual Required Contribution (ARC). The ARC is not "required" to be contributed each year, but in your case, will accumulate as a liability on the Town's financial statements (called the "OPEB Obligation") to the extent that the ARC exceeds the amount of premiums paid in a year. To date, the Town has chosen to not to pre-fund retiree medical and other OPEB benefits in a Trust. To pre-fund, would permit the use of a higher discount rate (to reflect higher returns from an equity/bond mix of a Trust, rather than short term returns of the Town's funds), which would reduce liabilities.

**PLAN DESIGN**

We received detailed employee and dependent data, information on the plans, past and current employer practices, and medical premium cost data.

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**CONSIDERATIONS**

For FYE 2016, there are 23 retirees plus dependents who are receiving employer subsidized benefits. We reflected known retirements and terminations in our database through June 30, 2015. Where data was missing or inaccurate, we assumed reasonable estimates. In all, we included 317 active employees plus dependents.

Retiree medical and dental coverage is fully insured; premium rates can be found on page 9.

Future retirees are assumed to be covered by this existing arrangement as outlined in the materials forwarded by the Town. Those provisions, as they relate to employer liability, can be found in the Summary of Plan Provisions section of this report.

**ASSUMPTIONS/RECOGNITION**

To establish the per capita claims cost of medical benefits for your group, we used current premium rates provided by the Town as the starting point for our calculations. We then employed a health care trend rate that begins at 8.0% for the first year, decreases through year 7 to 5.0% thereafter. This assumption needs to be reviewed periodically. The health care trend rate is a major contributor to widening the gap between pay-as-you-go recognition and GASB #45 recognition. Adjustments were also required to be made to recognize differences between the average age of the 'full' population and the average age of a 'retiree only' population (to develop "age adjusted" current premium rates/equivalents).



**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**SUMMARY OF PLAN PROVISIONS**

The following is a summary of the current major provisions of the retiree medical program.

1. **MEDICAL BENEFITS**

The Plan is a fully insured plan. Current medical (2015-16) retiree premium rates provided to us by the Town (for Town & School) include:

- a) Pre-age 65 Individual MED: Ranges from \$517 to \$665 per month.
- b) Pre-age 65 Family MED: Ranges from \$1,327 to \$1,698 per month.
- c) Individual Dental: Generally \$24 per month.

Pre-age 65 coverage is provided only.

School retirees are entitled to individual coverage only.

Coverage is provided for up to 5 yrs., 7 yrs., and/or until Medicare age, depending on employee category.

Adjustments to these premium rates to reflect the difference between the active/retiree group (for which the current premium rates were based on) and the retiree-only group, were required, in accordance with ASOP 6. The retiree and the spouse are covered under the program. For Town of North Smithfield, these adjustments were required for the Pre-Medicare liabilities.

2. **MEDICARE PART B PREMIUMS** – Not applicable.

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**SUMMARY OF PLAN PROVISIONS**

3. **ELIGIBILITY:**

Generally, an employee may retire at any age after 20 years of service (25 for teachers). Certain other minimum age/service may apply.

4. **TOWN SUBSIDY:**

The Town will generally pay 82% -100% toward medical and dental coverage, depending on employee category (Police, Teachers, Other Town, Other School). [81% - 100% in FYE 2018]. We understand that Firefighters are not covered by the Town's plan (coverage is provided by the Department).

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**SUMMARY OF PLAN PROVISIONS**

5. **FUNDING POLICY:**

The employer's funding policy is to contribute the current annual premium (net of employee contributions) for all retired participants (i.e., pay-as-you-go).

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**ACTUARIAL BASIS**

**ACTUARIAL FUNDING METHOD:**                      Projected Unit Credit

**ACTUARIAL ASSUMPTIONS**

- |                    |   |
|--------------------|---|
| 1. Valuation Date: | July 1, 2015  |
| 2. Discount Rate:  | 4.0% per annum  |
| 3. Salary Scale:   | Not applicable.   |
| 4. Mortality:      | RP2014 Mortality, with MP2014 projection.   |
| 5. Withdrawal:     | School: Select rates include (male):<br>0yr, 17%; 5yr, 2.9%; 10yr, 1.2%;<br>15yr, 1.2%; 20yr, 0.9%<br><br>Police: Select rates include:<br>0yr, 18%; 5yr, 5.8%; 10yr, 2.6%;<br>15yr, 1.6%; 20yr, 1.1%<br><br>Non-Police:<br>Select rates include (male):<br>0yr, 17.5%; 5yr, 10.9%; 10yr, 2.6%;<br>15yr, 2.0%; 20yr, 1.8% |
| 6. Disability:     | N/A   |

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**ACTUARIAL BASIS**

7. Retirement:

The following table illustrates the retirement rates:

A) School  
 (20 or 25 years of service required  
 at retirement)

<u>Retirement Age</u>	<u>Retirement Rates</u>
57	10.0%
58	20.0%
59	20.0%
60	10.0%
61	10.0%
62	30.0%
63	20.0%
64	20.0%
65+	N/A

B) Non-Police  
 (20 years of service required  
 at retirement)

<u>Retirement Age</u>	<u>Retirement Rates</u>
60	10.0%
61	10.0%
62	30.0%
63	20.0%
64	20.0%
65+	N/A

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**ACTUARIAL BASIS**

7. Retirement:

The following table illustrates the retirement rates:

C) Police (20 years of service required at retirement)	<u>Years of Service</u>	<u>Retirement Rates</u>
	20	12.0%
	21-23	10.0%
	24	12.0%
	25	14.0%
	26	16.0%
	27	18.0%
	28-29	20.0%
	30+	35.0%

**TOWN OF NORTH SMITHFIELD**  
**RETIREE HEALTH VALUATION UNDER GASB #45**

**ACTUARIAL BASIS**

8. Health Care Cost  
Trend Rate:

The following table illustrates the assumed health care trend rate for each future year:

<u>Year</u>	<u>(Medical) Assumed Increase</u>
1	8.0%
2	7.5%
3	7.0%
4	6.5%
5	6.0%
6	5.5%
7+	5.0%

Dental: 5% per annum.

9. Marital - Actives:

Wife is assumed to be same age as the husband. 70% of males and 50% of females are assumed married.

10. Participation Rate:

80% expected to participate.

11. Inflation Rate:

3.0% per annum.

**ASSET VALUATION METHOD:** Market value.

**AMORTIZATION BASIS:**

Level dollar, Closed, over 30 years. (22 years remain at 7/1/2015)