



INTERIM GASB 45 ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2016

Town of Narragansett and Narragansett School System

Nyhart Actuary & Employee Benefits

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January 12, 2017

**Laura Kenyon
Town of Narragansett
25 Fifth Avenue
Narragansett, RI 02882**

This report summarizes the interim GASB actuarial valuation for the Town of Narragansett and Narragansett School System 2015/16 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions).

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate and other economic assumptions have been selected by the Plan Sponsor. Demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

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

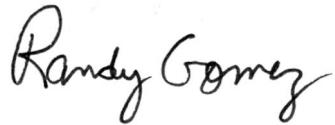
- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period);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

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

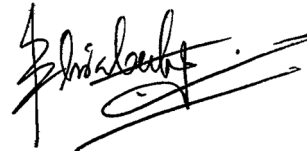
To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

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



Randy Gomez, FSA, MAAA
Consulting Actuary



Evi Laksana, ASA, MAAA
Valuation Actuary

Summary of Results

Presented below is the summary of GASB 45 results for both Town and School separately for the fiscal year ending June 30, 2016 compared to the prior fiscal year.

	<i>As of July 1, 2014</i>				<i>As of July 1, 2015</i>			
	<i>Town</i>		<i>School</i>		<i>Town</i>		<i>School</i>	
Actuarial Accrued Liability	\$	58,945,640	\$	3,422,659	\$	55,576,059	\$	3,566,336
Actuarial Value of Assets	\$	(2,463,875)	\$	0	\$	(2,940,154)	\$	0
Unfunded Actuarial Accrued Liability	\$	56,481,765	\$	3,422,659	\$	52,635,905	\$	3,566,336
Funded Ratio		4.2%		0.0%		5.3%		0.0%

	<i>FY 2014/15</i>				<i>FY 2015/16</i>			
	<i>Town</i>		<i>School</i>		<i>Town</i>		<i>School</i>	
Annual Required Contribution	\$	5,047,958	\$	392,924	\$	4,620,054	\$	419,272
Annual OPEB Cost	\$	4,709,739	\$	381,877	\$	4,243,091	\$	407,006
Annual Employer Contribution	\$	2,346,138	\$	307,430	\$	2,911,234	\$	335,099

	<i>As of June 30, 2015</i>				<i>As of June 30, 2016</i>			
	<i>Town</i>		<i>School</i>		<i>Town</i>		<i>School</i>	
Net OPEB Obligation	\$	22,997,385	\$	748,373	\$	24,329,242	\$	820,280

For Fiscal Year Ending June 30, 2016

Required Supplementary Information	Town	School
Actuarial Accrued Liability as of beginning of year	\$ 55,576,059	\$ 3,566,336
Actuarial Value of Assets as of beginning of year	(2,940,154)	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 52,635,905	\$ 3,566,336
Funded Ratio	5.3%	0.0%
Covered payroll ¹	\$ 9,808,380	N/A
UAAL as a % of covered payroll	536.6%	N/A

Annual Required Contribution	Town	School
Normal cost as of beginning of year	\$ 1,328,856	\$ 191,702
Amortization of the UAAL	3,092,248	209,515
Total normal cost and amortization payment	\$ 4,421,104	\$ 401,217
Interest to end of year	198,950	18,055
Total Annual Required Contribution (ARC)	\$ 4,620,054	\$ 419,272

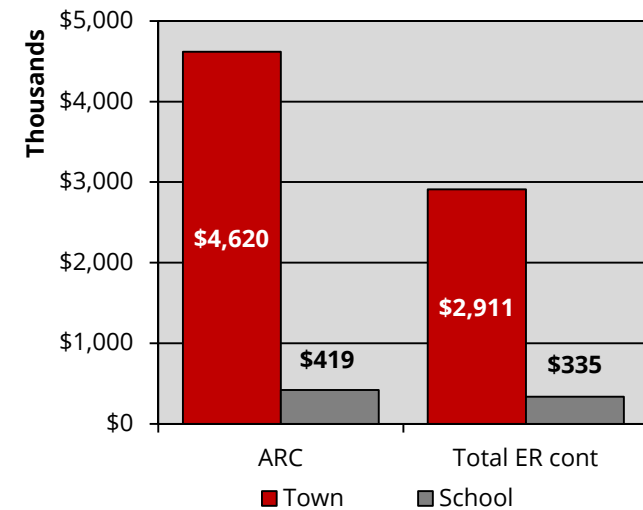
Net OPEB Obligation (NOO)	Town	School
ARC as of end of year	\$ 4,620,054	\$ 419,272
Interest on NOO to end of year	1,034,882	33,677
NOO amortization adjustment to the ARC	(1,411,845)	(45,943)
Annual OPEB cost	\$ 4,243,091	\$ 407,006
Annual employer contribution for pay-go cost ²	(2,911,234)	(335,099)
Annual employer contribution for pre-funding	0 ³	0
Change in NOO	\$ 1,331,857	\$ 71,907
NOO as of beginning of year	22,997,385	748,373
NOO as of end of year	\$ 24,329,242	\$ 820,280

¹ FY 2015/16 covered payroll is based on FY 2014/15 covered payroll increased by the payroll growth assumption (3.0%).

² Town's pay-go contribution is the sum of: (a) \$2,695,418 Town's contribution for retiree health benefit expenses and OPEB pre-funding plus (b) \$215,816 implicit portion of pay-go costs. School's pay-go contribution is an estimate.

³ Included in the annual employer contribution for pay-go cost.

Cash vs Accrual Accounting 2015/16



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules. The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance. The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

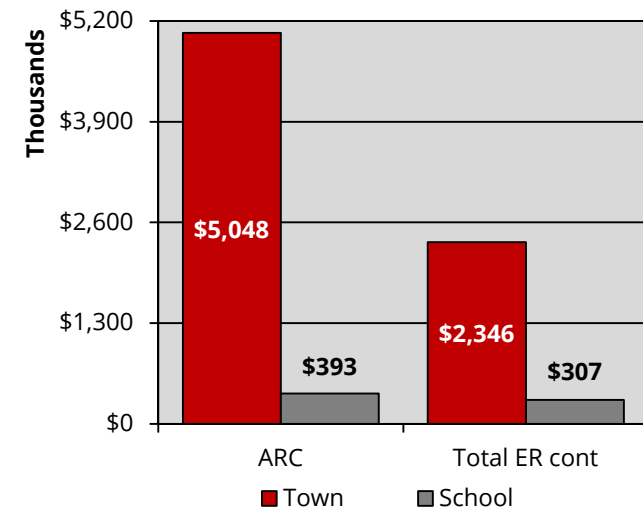
For Fiscal Year Ending June 30, 2015

Required Supplementary Information	Town	School
Actuarial Accrued Liability as of beginning of year	\$ 58,945,640	\$ 3,422,659
Actuarial Value of Assets as of beginning of year	(2,463,875)	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 56,481,765	\$ 3,422,659
Funded Ratio	4.2%	0.0%
Covered payroll	\$ 9,522,699	N/A
UAAL as a % of covered payroll	593.1%	N/A

Annual Required Contribution	Town	School
Normal cost as of beginning of year	\$ 1,512,398	\$ 174,930
Amortization of the UAAL	3,318,184	201,074
Total normal cost and amortization payment	\$ 4,830,582	\$ 376,004
Interest to end of year	217,376	16,920
Total Annual Required Contribution (ARC)	\$ 5,047,958	\$ 392,924

Net OPEB Obligation (NOO)	Town	School
ARC as of end of year	\$ 5,047,958	\$ 392,924
Interest on NOO to end of year	928,520	30,327
NOO amortization adjustment to the ARC	(1,266,739)	(41,374)
Annual OPEB cost	\$ 4,709,739	\$ 381,877
Annual employer contribution for pay-go cost ⁴	(1,936,138)	(307,430)
Annual employer contribution for pre-funding	(410,000)	0
Change in NOO	\$ 2,363,601	\$ 74,447
NOO as of beginning of year	20,633,784	673,926
NOO as of end of year	\$ 22,997,385	\$ 748,373

Cash vs Accrual Accounting 2014/15



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

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⁴ Town's pay-go contribution is the sum of: (a) \$1,738,143 Town's retiree health benefits expenses plus (b) \$197,995 implicit portion of pay-go costs. School's pay-go contribution is an estimate.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2016 and prior fiscal years as shown in the Town's Notes to Financial Statements.

Schedule of Funding Progress

<i>As of</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Actuarial Value of Assets (AVA)</i>	<i>Unfunded Actuarial Accrued Liability (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as % of Covered Payroll</i>
	<i>A</i>	<i>B</i>	<i>C = A + B</i>	<i>D = B / A</i>	<i>E</i>	<i>F = C / E</i>
July 1, 2015						
Town	\$ 55,576,059	\$ (2,940,154)	\$ 52,635,905	5.3%	\$ 9,808,380	536.6%
School	\$ 3,566,336	\$ 0	\$ 3,566,336	0.0%	\$ N/A	N/A
July 1, 2014						
Town	\$ 58,945,640	\$ (2,463,875)	\$ 56,481,765	4.2%	\$ 9,522,699	593.1%
School	\$ 3,422,659	\$ 0	\$ 3,422,659	0.0%	\$ N/A	N/A
July 1, 2013						
Town	\$ 58,381,028	\$ (1,868,509)	\$ 56,512,519	3.2%	\$ 9,377,308	602.7%
School	\$ 3,079,624	\$ 0	\$ 3,079,624	0.0%	\$ 16,032,959	19.2%

Summary of GASB 45 Financial Results – Continued**Schedule of Employer Contributions**

<i>FYE</i>	<i>Employer Contributions</i>	<i>Annual Required Contribution (ARC)</i>	<i>% of ARC Contributed</i>
	<i>A</i>	<i>B</i>	<i>C = A / B</i>
June 30, 2016			
Town	\$ 2,911,234	\$ 4,620,054	63.0%
School	\$ 335,099	\$ 419,272	79.9%
June 30, 2015			
Town	\$ 2,346,138	\$ 5,047,958	46.5%
School	\$ 307,430	\$ 392,924	78.2%
June 30, 2014			
Town	\$ 2,510,011	\$ 5,030,992	49.9%
School	\$ 275,520	\$ 379,211	72.7%

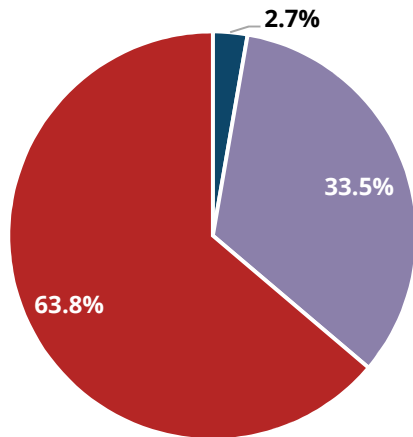
Historical Annual OPEB Cost

<i>As of</i>	<i>Annual OPEB Cost</i>	<i>% of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
June 30, 2016			
Town	\$ 4,243,091	68.6%	\$ 24,329,242
School	\$ 407,006	82.3%	\$ 820,280
June 30, 2015			
Town	\$ 4,709,739	49.8%	\$ 22,997,385
School	\$ 381,877	80.5%	\$ 748,373
June 30, 2014			
Town	\$ 4,729,147	53.1%	\$ 20,633,784
School	\$ 369,708	74.5%	\$ 673,926

Asset Information

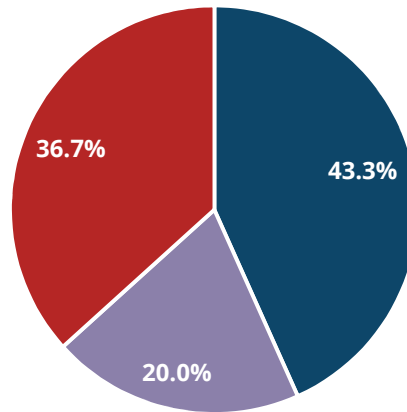
Summary of Assets	Market Value as of June 30, 2015	Market Value as of June 30, 2016
Cash / money market	\$ 70,493	\$ 1,899,392
Fixed income	862,126	876,626
Equities	1,644,242	1,610,506
Other assets	0	0
Total market value of assets	\$ 2,576,861	\$ 4,386,524
Employer contributions receivable	379,721	0
Accounts payable	(16,428)	(576,331)
Final market value of assets	\$ 2,940,154	\$ 3,810,193

Asset Allocation as of 6/30/2015



■ Cash / money market ■ Fixed income ■ Equities

Asset Allocation as of 6/30/2016



■ Cash / money market ■ Fixed income ■ Equities

Asset Information – Continued

Reconciliation of Market Value of Assets	FY 2014/15	FY 2015/16
Market value of Trust assets as of July 1	\$ 1,352,281	\$ 2,576,861
Revenues		
Employer contributions receivable deposit	\$ 1,111,594 ⁵	\$ 379,721
Employer contributions	1,784,850	2,695,418
Investment income net of investment expenses	122,970	(33,406)
Total	\$ 3,019,414	\$ 3,041,733
Expenditures		
Accounts payable from prior period	\$ 0	\$ (16,428)
Accounts payable for current period	0	576,331
Benefit payments	(1,782,350) ⁶	(1,775,673) ⁷
Administrative expenses and professional fees	(12,484)	(16,300)
Total	\$ (1,794,834)	\$ (1,232,070)
Net income	\$ 1,224,580	\$ 1,809,663
Market value of Trust assets as of June 30	\$ 2,576,861	\$ 4,386,524
Adjustment for employer contributions receivable	379,721	0
Adjustment for accounts payable	(16,428)	(576,331)
Actuarial value of assets as of June 30	\$ 2,940,154	\$ 3,810,193
Asset rate of return (based on market value of assets)	6.7%	-1.0%

⁵ Contribution receivable for prior fiscal years that was deposited in the Trust in December 2015.

⁶ Based on actual pay-go cost of \$1,886,900 less retiree contributions of \$104,550.

⁷ Based on actual pay-go cost of \$1,881,518 less retiree contributions of \$105,845.

Summary of Key Actuarial Assumptions

For a more complete summary of assumptions, refer to the GASB 45 Financial Report for fiscal year ending June 30, 2015.

Discount Rate	4.5% (partially funded for the Town and unfunded for the School)
Inflation Rate	3.0% per year
Payroll Growth	3.0% per year
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar over thirty years based on an open group
Health Care Trend Rates	Annual trend rates by benefit are as shown below:

FYE	Town			School	
	Medical / Rx	Dental	Part B	Medical / Rx	Dental
2017	8.00%	4.00%	3.50%	8.00%	4.00%
2018	7.00%	3.50%	3.75%	7.00%	3.50%
2019	6.50%	3.00%	4.00%	6.50%	3.00%
2020	6.00%	3.00%	4.25%	6.00%	3.00%
2021	5.50%	3.00%	4.25%	5.50%	3.00%
2022+	5.00%	3.00%	4.25%	5.00%	3.00%

Actuary's Notes

Adjustments have been made to the Actuarial Accrued Liability, Normal Cost, and expected Benefit Payments for actual premium increases from 2015/6 to 2016/17, and the following substantive plan provisions changes for Police and Fire employees. Net impact of these changes is a decrease in the Town's and School's liabilities.

1. Employees retiring on/after January 1, 2017 are required to enroll in the HDHP with HSA plan at no cost to the retirees. There will be no HSA contributions made by the Town for retirees.
2. Officers retiring on/after January 1, 2017 will be enrolled in the BC HM \$250 plan with 20% rx rider. Retiree contributions will be based on the following schedule:
 - a. Retirements prior to July 1, 2017 – Town pays 85% and retiree pays 15%.
 - b. Retirements on/after July 1, 2017 but before July 1, 2018 – Town pays 83% and retiree pays 17%.
 - c. Retirements on/after July 1, 2018 – Town pays 80% and retiree pays 20%.
3. Buyback benefit for retired police officers will be based on the following schedule:
 - a. Retirements prior to July 1, 2017 – 60% of the Town's portion of retiree health benefits (or 60% x 85%).
 - b. Retirements on/after July 1, 2017 – 50% of the Town's portion of retiree health benefits (or 50% x 83% for those retiring on/after July 1, 2017 but before July 1, 2018 and 50% x 80% for those retiring on/after July 1, 2018).

Actuary's Notes – Continued**Premium rates**

Comparison of monthly premium rates are as shown below.

Pre-Medicare plans	Eff. 7/1/2015		Eff. 7/1/2016	
	Single	2-person	Single	2-person
Town				
Classic Blue	\$ 718.28	\$ 1,436.56	\$ 720.45	\$ 1,440.90
Healthmate Coast to Coast	\$ 656.80	\$ 1,313.60	\$ 658.78	\$ 1,317.57
Healthmate 250	\$ 597.70	\$ 1,195.40	\$ 599.50	\$ 1,199.01
Fire HDHP w/ HSA	N/A	N/A	\$ 496.46	\$ 992.93
United Health Plan	\$ 954.82	\$ 1,909.64	\$ 903.35	\$ 1,806.70
School	Single	Family	Single	Family
Classic Blue	\$ 503.04	\$ 1,502.50	\$ 553.35	\$ 1,652.75
Healthmate Coast to Coast	\$ 497.28	\$ 1,429.94	\$ 547.00	\$ 1,572.94
Medicare plans	Eff. 7/1/2015		Eff. 7/1/2016	
Town	Single	2-person	Single	2-person
Plan 65	\$ 418.10	\$ 836.20	\$ 470.59	\$ 941.18
Plan 65 without major medical	\$ 169.31	\$ 338.62	\$ 178.69	\$ 357.38
Medicare Part D	\$ 179.00	\$ 358.00	\$ 199.00	\$ 398.00
School	Single	2-person	Single	2-person
Plan 65	\$ 496.44	\$ 992.88	\$ 562.56	\$ 1,125.12
	Eff. 7/1/2015		Eff. 7/1/2016	
Dental plans	Single	2-person⁸	Single	2-person⁸
Town	\$ 36.01	\$ 72.02	\$ 36.24	\$ 72.48
School	\$ 37.34	\$ 110.52	\$ 37.34	\$ 110.52

⁸ Town dental rates shown above are for 2-person coverage level. School dental rates shown above are for family coverage level.