



INTERIM GASB 45 ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2016

Town of Portsmouth

Nyhart Actuary & Employee Benefits

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November 23, 2016

**David Faucher
Town of Portsmouth
2200 East Main Road
Portsmouth, RI 02871**

This report summarizes the interim GASB actuarial valuation for the Town of Portsmouth 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:

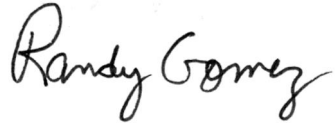
- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period);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

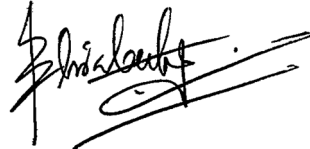
To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

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 the fiscal year ending June 30, 2016 compared to the prior fiscal years as shown in the Town's Notes to Financial Statement.

	<i>As of July 1, 2014</i>		<i>As of July 1, 2015</i>	
Actuarial Accrued Liability	\$	13,554,244	\$	14,460,199
Actuarial Value of Assets	\$	(544,427)	\$	(620,473)
Unfunded Actuarial Accrued Liability	\$	13,009,817	\$	13,839,726
Funded Ratio		4.0%		4.3%

	<i>FY 2014/15</i>		<i>FY 2015/16</i>	
Annual Required Contribution	\$	1,313,035	\$	1,351,405
Annual OPEB Cost	\$	1,259,494	\$	1,290,165
Annual Employer Contribution	\$	726,394	\$	861,032

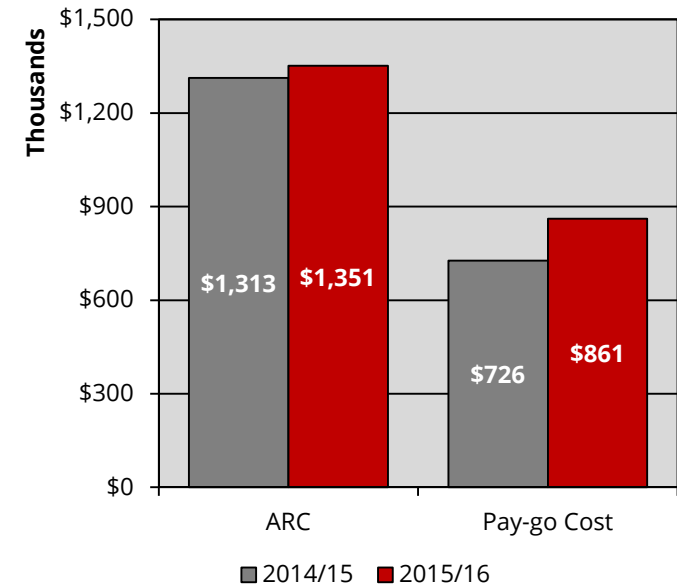
	<i>As of June 30, 2015</i>		<i>As of June 30, 2016</i>	
Net OPEB Obligation	\$	4,240,434	\$	4,669,567

Development of Annual Required Contribution (ARC)

Required Supplementary Information		FY 2014/15		FY 2015/16
Actuarial Accrued Liability as of beginning of year	\$	13,554,244	\$	14,460,199
Actuarial Value of Assets as of beginning of year		(544,427)		(620,473)
Unfunded Actuarial Accrued Liability (UAAL)	\$	13,009,817	\$	13,839,726
Funded Ratio		4.0%		4.3%
Covered payroll ¹	\$	6,287,866	\$	6,476,502
UAAL as a % of covered payroll		206.9%		213.7%

Annual Required Contribution		FY 2014/15		FY 2015/16
Normal cost as of beginning of year	\$	481,310	\$	468,129
Reduction for employee contributions		(59,954)		(63,025)
Net normal cost as of beginning of year	\$	421,356	\$	405,104
Amortization of the UAAL		826,302		879,013
Total normal cost and amortization payment	\$	1,247,658	\$	1,284,117
Interest to end of year		65,377		67,288
Total Annual Required Contribution (ARC)	\$	1,313,035	\$	1,351,405

Cash vs Accrual Accounting



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

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

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation		FY 2014/15		FY 2015/16
ARC as of end of year	\$	1,313,035	\$	1,351,405
Interest on Net OPEB Obligation (NOO) to end of year		194,264		222,199
NOO amortization adjustment to the ARC		(247,805)		(283,439)
Annual OPEB cost	\$	1,259,494	\$	1,290,165
Annual employer contribution for pay-go cost		(704,928) ²		(816,032) ³
Annual employer contribution for pre-funding		(21,466)		0
Change in NOO	\$	533,100	\$	429,133
NOO as of beginning of year		3,707,334		4,240,434
NOO as of end of year	\$	4,240,434	\$	4,669,567

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.

² FY 2014/15 annual employer contributions for pay-go cost is the sum of (a) \$618,716 in actual premium payments for retirees and (b) \$86,212 for the implicit portion of pay-go costs.

³ FY 2015/16 annual employer contributions for pay-go cost is the sum of (a) \$765,646 in actual premium payments for retirees and (b) \$95,386 for the implicit portion of pay-go costs.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 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	\$ 14,460,199	\$ (620,473)	\$ 13,839,726	4.3%	\$ 6,476,502	213.7%
July 1, 2014	\$ 13,554,244	\$ (544,427)	\$ 13,009,817	4.0%	\$ 6,287,866	206.9%
July 1, 2013	\$ 12,827,546	\$ (457,516)	\$ 12,370,030	3.6%	\$ 5,569,426	222.1%

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	\$ 861,032	\$ 1,351,405	63.7%
June 30, 2015	\$ 726,394	\$ 1,313,035	55.3%
June 30, 2014	\$ 768,926	\$ 1,254,874	61.3%

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	\$ 1,290,165	66.7%	\$ 4,669,567
June 30, 2015	\$ 1,259,494	57.7%	\$ 4,240,434
June 30, 2014	\$ 1,207,670	63.7%	\$ 3,707,334

Asset Information

<i>Summary of Assets</i>	<i>Market Value as of June 30, 2015</i>	<i>Market Value as of June 30, 2016⁴</i>
General investments		
Cash / cash equivalents	\$ 620,373	\$ 6,912
Fixed income		283,399
Equities		400,906
Interest earned	100	
Net assets	\$ 620,473	\$ 691,217

<i>Reconciliation of Assets</i>	<i>FY 2014/15</i>	<i>FY 2015/16</i>
Income		
Contributions received		
Employer	\$ 640,182	\$ 765,646
Employee	59,954	63,025
Investment earnings		
Interest income	1,126	9,594
Unrealized appreciation / depreciation		
Total income	\$ 701,262	\$ 838,265
Disbursements		
Benefit payments to retirees	\$ (618,716)	\$ (765,646)
Administrative expenses	(6,500)	(1,875)
Total disbursements	\$ (625,216)	\$ (767,521)
Net income	\$ 76,046	\$ 70,744
Net asset at beginning of year	544,427	620,473
Net asset at end of year	\$ 620,473	\$ 691,217

⁴ As of June 30, 2016 all money is invested in Vanguard Vantagepoint Model Portfolio Traditional Growth Fund. The asset allocation as of June 30, 2016 shown above is based on the asset allocation as of May 31, 2016 which is as follows: 1% cash/other, 58% equity, and 41% fixed income.

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	5.24% partially funded
Inflation Rate	3.0% per year
Payroll Growth	3.0% per year (used for covered payroll projection only)
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar amount over thirty years based on an open group
Health Care Trend Rates	Annual trend rates by benefit are as shown below:

FYE	Medical / Rx	Vision	Dental
2017	8.5%	3.00%	4.75%
2018	8.0%	3.00%	4.50%
2019	7.5%	3.00%	4.25%
2020	7.0%	3.00%	4.00%
2021	6.5%	3.00%	4.00%
2022	6.0%	3.00%	4.00%
2023	5.5%	3.00%	4.00%
2024	5.0%	3.00%	4.00%
2025+	5.0%	3.00%	4.00%

Actuary’s Notes

Since the last full valuation for fiscal year ending June 30, 2015 we have updated the termination and retirement assumptions based on the Town’s historical experience from 2011 to 2015. Both assumption changes caused a reduction in the Town’s liabilities. Comparison of current and prior assumptions are as shown below.

Termination Rates				Retirement Rates								
Age	Prior		Current		All Others			Prior			Current	
	All Groups	Police / Fire	All Others	Age	Prior	Current	Age	Police	Fire	YOS	Police / Fire	
20	5.4%	3.8%	9.9%	55	15%	5%	40 – 44	5%	2%	20	40%	
25	4.9%	3.7%	9.7%	56	5%	5%	45	5%	5%	21	5%	
35	2.3%	3.3%	8.7%	57	5%	10%	46 – 47	15%	5%	22	5%	
45	0.3%	1.2%	6.4%	58	5%	10%	48 – 49	10%	5%	23	25%	
50	0.0%	0.3%	4.2%	59	10%	10%	50	25%	25%	24	25%	
60	0.0%	0.0%	0.1%	60	25%	10%	51 – 54	10%	15%	25	100%	
				61	10%	10%	55	100%	100%			
				62	20%	15%						
				63 – 64	10%	10%						
				65 – 66	100%	40%						
				67	100%	100%						

In addition to the assumption changes noted above, adjustments have been made to the Actuarial Accrued Liability, Normal Cost, and expected Benefit Payments for actual premium increases from 2015/16 to 2016/17, which caused higher Town’s liabilities compared to expected. Refer to the next page for comparison of premium rates effective on July 1, 2015 and 2016.

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

Comparison of monthly premium rates are as shown below.

Plans	Group	Eff. 7/1/2015		Eff. 7/1/2016	
		Single	Family	Single	Family
HM 0001	Retired Fire (post-4/08, pre -7/10)	\$ 599.74	\$ 1,549.02	\$ 682.58	\$ 1,762.98
HM 0002 Ded	DPW (active & retired post-7/14)				
HM 0007 Ded	PMEA & NUG (active & retired post-7/13)	\$ 567.79	\$ 1,466.44	\$ 646.22	\$ 1,669.00
HM 0009 Ded	Retired Police (post-4/14)				
HM 0002	Retired Police (pre-4/14)				
HM 0004	Retired DPW (pre-7/14)	\$ 622.11	\$ 1,606.76	\$ 708.04	\$ 1,828.71
HM 0009	Retired Fire (pre-4/08)				
HM 0005 HDHP	Fire (active)	\$ 550.79	\$ 1,202.76	\$ 579.72	\$ 1,328.06
HM 0006 HDHP	Retired Fire (post-7/10) & Civilian Fire Dispatchers	\$ 411.89	\$ 1,063.86	\$ 472.78	\$ 1,221.12
Classic 0004	Retired Fire (pre-4/08)	\$ 710.49	\$ 1,825.49	N/A	N/A
Classic 0007	NUG (pre-7/14)	\$ 719.33	\$ 1,848.84	\$ 818.69	\$ 2,104.22
Classic 0009	Retired Police (pre-4/14)	\$ 826.68	\$ 2,182.61	\$ 940.88	\$ 2,484.10
HM 0007	Retired PMEA (pre-7/13)	\$ 599.93	\$ 1,549.45	\$ 682.80	\$ 1,763.48
HM 0008 Ded	Police (active)	\$ 656.25	\$ 1,554.90	\$ 714.32	\$ 1,737.10
Dental	Police, Fire, and Public Works	\$ 32.96	\$ 88.78	\$ 32.63	\$ 88.78
Dental	PMEA and NUG	\$ 32.96	\$ 89.69	\$ 32.63	\$ 87.88