

McCloud & Associates, Inc.

QUALIFIED PLAN CONSULTING AND ADMINISTRATION

April 16, 2015

Mr. Matt Wojcik
Town Administrator
343 Highland Road
Tiverton, Rhode Island 02878

Town of Tiverton Police Department Pension Plan
Experience, Assumption and Actuarial Methodology Review

Dear Matt:

McCloud & Associates, Inc. was asked to perform a review of the Plan's experience, assumptions and methods and in an ongoing effort to insure that calculated liabilities are presented as accurately as possible for funding and administrative purposes. This review was based upon the data submitted by the Pension Plan administrator for the Plan years from 2012 through 2014.

Economic Assumptions:

The assumed rate of investment return is currently 7.5% per annum, compounded annually net of administrative and investment expenses.

According to the Plan's investment advisors, the Plan's target allocation of assets is 80% equities, 20% fixed income. The actual asset allocation is reasonably close to these targets. Based on this asset mix, the investment advisors expect an average total return over a 15 year time horizon to be between 8-9%.

Over the last three years, the average rate of return is between approximately 7.0% and 7.3%. Because of the volatility seen in recent years, and the current asset allocation targets as well as the advice of the Plan's investment advisors, **we believe that an investment return assumption of 7.5% continues be reasonable.**

The assumed rate of salary increases is 3.5%. Aggregate average salaries have increased approximately (5.3)% - 2.8% per year over the last 3 years. For participants with more than 5 years of service, average salaries were also in that range. Based on this information, **we believe that a salary scale assumption of 3.5% continues be reasonable.**

Economic Assumptions (continued):

The Plan provides a cost of living adjustment for certain participants in pay status. The assumed rate of benefit increase is 1.3% compounded on an ongoing basis. Actual benefits have increased at an average rate between 0.5% and 3.3% per year with an annual average increase of 1.84%. **We recommend that the board consider a change to a 1.8% compound COLA assumption.**

Mortality and Withdrawal Assumptions:

The Plan uses the RP 2000 mortality tables. This plan is not large enough to justify a full mortality study. The tables used are standard in the industry. However they are becoming somewhat outdated. We may make a recommendation in the near future to update the mortality assumptions as more recent tables become standard.

The Plan also uses no withdrawal assumption. Actual experience indicates that turnover is rare for this demographic and we do not recommend introducing a withdrawal table at this time.

Retirement Assumptions:

Currently we assume that 50% of active participants will retire 20 years of service. If a participant has at least 20 years of service, the assumed rate is 10% per year through age 55 and 100% for age 55 and older. Actual experience shows that these rates appear to be consistent for the current retiree group. Among active participants, only 2 participants are currently over age 55.

We do not recommend a change to the retirement rates currently used.

Actuarial Method – Amortizing Unfunded Liability:

The recommended contribution rate for the Plan is determined using two main components: The Normal Cost, which is the cost of benefits that are expected to be earned by active participants in the upcoming year, and an amortization of the costs of benefits from past service that have not yet been paid. This latter piece is called the “Unfunded Liability” and we amortize this amount over a period of years. The recommended contribution rate assumes that the City will pay for active benefits as they are earned (the Normal Cost) and then also make a payment toward the Unfunded Liability.

We have some discretion in how we amortize the Unfunded Liability. There are more and less conservative methods of doing so.

Actuarial Method – Amortizing Unfunded Liability (continued):

We began using a closed amortization period of 25 years with the July 1, 2012 valuation. This method is considered reasonable by actuarial standards for an ongoing plan.

We do not recommend a change to the current method of amortizing the Unfunded Liability.

In Closing:

A review of the Plan's assumptions and methods is recommended and now required by the state at least every 3 years. We appreciate the opportunity to discuss the Plan's benefit provisions, assumptions and methods and we would be happy to elaborate on any of the materials provided here or any other Plan related issues that the board would like to discuss.

Respectfully submitted,



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