

City of Warwick, Rhode Island Firefighters/ Police 1 Pension Fund

ACTUARIAL VALUATION AS OF JULY 1, 2017



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SECTION A

DISCUSSION

I. Purpose and Summary

This report presents the results of our July 1, 2017 actuarial valuation of the City of Warwick, Rhode Island Firefighters/Police I Pension Fund. The valuation was performed at the request of the City of Warwick to determine the City's annual contribution for the fiscal year beginning July 1, 2017 under the City's funding ordinance.

The City's contribution level is \$18,427,594 for 2018-2019, as shown on Table 4.

The development of the valuation results is shown in Tables 1 through 10 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, 2016. The data was projected to July 1, 2017 for valuation purposes reflecting age, salary and benefit increases, with adjustments of data due to data questions response. Although we did not audit this data, we did review it for reasonableness and consistency with the data collected in the previous valuation (prepared as of July 1, 2016). Tables 5A, 5B and 5C provide distributions by age and service for active members. Tables 1A, 1B, and 1C provide information about the retirees and inactive members.

III. Plan Provisions

A summary of the principal plan provisions recognized for purposes of the valuation is provided in Table 10. There were no changes to this plan adopted since the last actuarial valuation.

IV. Assets

The City of Warwick furnished audited financial statements for the fiscal years ending June 30, 2017. 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 July 1, 2017 was \$71,756,352 while the valuation assets were \$71,696,888, or 99.9% of the market value.

As shown in Table 3b, the dollar-weighted rate of return on the market value of assets for FY 2017 was 14.21%. These returns are 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 no changes to the assumptions and methods since the last actuarial valuation. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of the City of Warwick, Rhode Island Firefighters/Police I Pension Fund.

VI. Funding Policy

The plan is funded on an actuarially determined basis in accordance with the City's pension ordinances. The unfunded actuarial accrued liability as of July 1, 2017, is amortized using multiplier layers as a level percentage of payroll and is anticipated to grow 2.75% annually. The main portion of the current UAAL has 18 years remaining as of the valuation date. The increase in accrued liability as of July 1, 2016, due to the change in assumptions is ratably recognized over a five year period beginning in the FY2019 contribution requirement according to the schedule found in Table 2. The increase in normal cost from the change in assumptions was recognized fully in the FY2018 contribution requirement.

In addition, per the funding plan, the contribution for the 2018-2019 fiscal year will be equal to the greater of the actuarially determined amount from the formula above and the 2017-2018 contribution increased by 2.75% until the plan exceeds the 60% funded level.

VII. Analysis of Changes

The UAAL increased from \$224 million to \$227 million since last year. The funded ratio increased from 23.98% to 24.03%. The funded status measure alone is not appropriate for assessing the need for future contributions. Also, the funded status is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

VIII. Future Expectations

We commend the City for continuing to meet its actuarial contribution requirements as dictated by the approved funding policy. If the City continues to meet those obligations, we anticipate the funded ratio will increase consistently after the phase in of the new assumption set.

IX. Certification

We certify that the information included herein and contained in this Actuarial Valuation Report is accurate and fairly presents the actuarial position of the City of Warwick, Rhode Island Firefighters/Police I Pension Fund as of the valuation date.

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Joseph P. Newton and Paul T. Wood are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

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



Joseph P. Newton, FSA, EA, MAAA
Pension Market Leader and Actuary



Paul T. Wood, ASA, FCA, MAAA
Consultant

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SECTION B

TABLES

Table 1A

Valuation Results

Combined FireFighters and Police I

	July 1, 2017	July 1, 2016
A. Membership Data		
1. Active members		
a. Number	24	31
b. Expected covered payroll	\$ 2,431,765	\$ 3,030,168
c. Average pay	\$ 101,324	\$ 97,747
d. Average attained age	54.1	53.5
e. Average past service	29.4	28.3
2. Retired members and beneficiaries		
a. Number	406	404
b. Average benefit	\$ 53,037	\$ 51,567
c. Average attained age	70.7	70.2
3. Inactive members		
a. Number	-	-
b. Refund	\$ -	\$ -
B. Liabilities		
1. Normal cost with interest		
a. Dollar amount	\$ 673,102	\$ 811,103
b. % of covered payroll	27.68%	26.77%
2. Actuarial accrued liability		
a. Active members	\$ 28,382,278	\$ 30,225,212
b. Retired members and beneficiaries	269,991,071	264,453,551
c. Inactive	-	-
d. Total	\$ 298,373,349	\$ 294,678,763
3. Valuation assets	\$ 71,696,888	\$ 70,662,214
4. Unfunded actuarial accrued liability [2(d) - (3)]	\$ 226,676,461	\$ 224,016,549
5. Funded Ratio	24.03%	23.98%

Table 1B

Valuation Results

Police I Only

	<u>July 1, 2017</u>	<u>July 1, 2016</u>
A. Membership Data		
1. Active members		
a. Number	1	1
b. Expected covered payroll	\$ 94,544	\$ 94,052
c. Average pay	\$ 94,544	\$ 94,052
d. Average attained age	74.1	73.1
e. Average past service	51.0	50.0
2. Retired members and beneficiaries		
a. Number	96	100
b. Average benefit	\$ 45,047	\$ 43,640
c. Average attained age	77.2	76.7
3. Inactive members		
a. Number	-	-
b. Refund	\$ -	\$ -
B. Liabilities		
1. Normal cost with interest		
a. Dollar amount	\$ -	\$ -
b. % of covered payroll	0.00%	0.00%
2. Actuarial accrued liability		
a. Active members	\$ 670,616	\$ 689,919
b. Retired members and beneficiaries	41,666,241	43,021,188
c. Total	<u>\$ 42,336,857</u>	<u>\$ 43,711,107</u>

Table 1C

Valuation Results

Firefighters Only

	<u>July 1, 2017</u>	<u>July 1, 2016</u>
A. Membership Data		
1. Active members		
a. Number	23	30
b. Expected covered payroll	\$ 2,337,221	\$ 2,936,116
c. Average pay	\$ 101,618	\$ 97,871
d. Average attained age	53.3	52.9
e. Average past service	28.4	27.5
2. Retired members and beneficiaries		
a. Number	310	304
b. Average benefit	\$ 55,511	\$ 54,174
c. Average attained age	68.8	68.1
3. Inactive members (Non-Vesting)		
a. Number	-	-
b. Refund	\$ -	\$ -
B. Liabilities		
1. Normal cost with interest		
a. Dollar amount	\$ 634,279	\$ 781,781
b. % of covered payroll	27.14%	26.63%
2. Actuarial accrued liability		
a. Active members	\$ 27,711,662	\$ 29,535,293
b. Retired members and beneficiaries	228,324,830	221,432,363
c. Inactive	-	-
d. Total	<u>\$ 256,036,492</u>	<u>\$ 250,967,656</u>

Table 2

Summary of Amortization Bases

Date Established	Purpose	Initial Amount	Remaining Balance as of July 1, 2017	2018 - 2019 Amortization Payment *	Years Remaining as of July 1, 2018
7/14	Fresh Start, Offsetting of Prior Bases at 2.75% Growth Rate	\$ 210,830,722	\$ 207,300,235	\$ 16,774,058	17
7/15	2015 Experience (Gain)/Loss	(2,226,779)	(2,194,983)	(177,611)	17
7/16	2016 Experience (Gain)/Loss	411,071	408,249	31,845	18
** 7/16	2016 Assumption Change - FY19 Stagger	3,306,969	3,535,150	277,297	20
** 7/16	2016 Assumption Change - FY20 Stagger	3,306,969	3,535,150	-	21
** 7/16	2016 Assumption Change - FY21 Stagger	3,306,969	3,535,150	-	22
** 7/16	2016 Assumption Change - FY22 Stagger	3,306,969	3,535,150	-	23
** 7/16	2016 Assumption Change - FY23 Stagger	3,306,969	3,535,150	-	24
7/17	2017 Experience (Gain)/Loss	3,487,210	<u>3,487,210</u>	<u>273,536</u>	20
	Total		\$ 226,676,461	\$ 17,179,125	

* Assuming payment made throughout of the year.

** Assumption change staggers will begin in the fiscal year indicated and be 20 scheduled payments

Table 3A

Assets Information

Composition of Fund as of June 30, 2017

	Market Value	Percentage of Total
1. Cash and equivalents	\$ 351,409	0.5%
2. Equities, including index funds	33,169,954	46.2%
3. Fixed income investments	38,329,796	53.4%
4. Receivables less payables	<u>(94,807)</u>	<u>-0.1%</u>
5. Total	\$ 71,756,352	100.0%

Table 3B

Assets Information

Asset Reconciliation and Expected Returns

	FY 2014	FY 2015	FY 2016	FY 2017
1. Beginning of year market value	65,991,960	71,622,345	69,544,038	66,038,452
2. Contributions				
a. City	15,206,485	16,039,998	17,378,897	17,465,464
b. Member	321,061	284,810	266,831	219,770
c. Other	-	-	-	670
d. Total	<u>15,527,546</u>	<u>16,324,808</u>	<u>17,645,728</u>	<u>17,685,904</u>
3. Benefits and admin expenses paid	(19,675,904)	(19,753,740)	(20,192,173)	(21,106,700)
4. Net return	9,778,743	1,350,625	(959,141)	9,138,696
5. End of year market value	71,622,345	69,544,038	66,038,452	71,756,352
6. Net market return	15.30%	1.93%	-1.40%	14.21%
7. Expected market value				
a. Beginning of year	65,991,960	71,622,345	69,544,038	66,038,452
b. Net cash flow	(4,148,358)	(3,428,932)	(2,546,445)	(3,420,796)
c. Earnings assumption	7.50%	7.50%	7.50%	6.90%
d. Expected earnings	4,793,834	5,243,091	5,120,311	4,440,604
e. Excess/(shortfall)	4,984,909	(3,892,466)	(6,079,452)	4,698,092

Table 4

Development of Contribution Levels

	<u>Valuation Results 2017 - 2018</u>	<u>Statutory Contribution for 2018 - 2019</u>
1. Gross normal cost	\$ 673,102	
2. Anticipated employee contributions	<u>(127,508)</u>	
3. Net normal cost [(1) - (2)]	\$ 545,594	\$ 560,598
4. Sum of amortization amounts		<u>17,179,125</u>
5. Total [(3) + (4)]		\$ 17,739,723
6. Determination of Minimum Contribution Per Funding Plan		
a. Contribution for 2017-2018 from Prior Year's Report	\$ 17,934,399	
b. Prior Year Contribution with 2.75% growth		\$ 18,427,594
7. Maximum of (5) and (6)		\$ 18,427,594

Table 5A

Distribution of Active Members by Age and by Years of Service (Police I)

As of July 1, 2017

Attained Age	Years of Credited Service												Total Count & Avg. Comp.
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
	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	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
25-29	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
30-34	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
35-39	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
40-44	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
45-49	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
50-54	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
55-59	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
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 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1 \$94,544	1 \$94,544
Total	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1 \$94,544	1 \$94,544

Table 5B

Distribution of Active Members by Age and by Years of Service (Fire I)

As of July 1, 2017

Attained Age	Years of Credited Service												Total Count & Avg. Comp.	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	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	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	0 \$0
25-29	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	0 \$0
30-34	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	0 \$0
35-39	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	0 \$0
40-44	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	0 \$0
45-49	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$110,765	1 \$0	0 \$0	0 \$0	1 \$110,765
50-54	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$99,878	13 \$93,962	2 \$0	0 \$0	15 \$99,090
55-59	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$103,315	6 \$120,223	1 \$0	0 \$0	7 \$105,730
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	0 \$0
65 & Over	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	0 \$0
Total	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	20 \$101,454	3 \$102,715	0 \$0	23 \$101,618

Table 5C

Distribution of Active Members by Age and by Years of Service (Police I and Fire I)

As of July 1, 2017

Attained Age	Years of Credited Service												Total Count & Avg. Comp.	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	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	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	0 \$0
25-29	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	0 \$0
30-34	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	0 \$0
35-39	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	0 \$0
40-44	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	0 \$0
45-49	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$110,765	1 \$0	0 \$0	0 \$0	1 \$110,765
50-54	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$99,878	13 \$93,962	2 \$0	0 \$0	15 \$99,090
55-59	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$103,315	6 \$120,223	1 \$0	0 \$0	7 \$105,730
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	0 \$0
65 & Over	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$94,544	1 \$94,544	1 \$94,544
Total	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	20 \$101,454	3 \$102,715	1 \$94,544	24 \$101,324

Table 6

History of Investment Return Rates

Year Ending June 30 of (1)	Market (2)	Actuarial (3)
2000	20.61%	
2001	-18.81%	
2002	-6.79%	
2003	3.40%	
2004	16.63%	
2005	9.25%	
2006	8.24%	6.05%
2007	14.79%	10.63%
2008	-4.12%	9.01%
2009	-16.88%	1.88%
2010	14.27%	0.85%
2011	22.30%	3.61%
2012	-0.07%	6.40%
2013	11.91%	12.94%
2014	15.30%	12.68%
2015	1.93%	9.79%
2016	-1.40%	5.83%
2017	14.21%	6.40%
Average Returns:		
Last 5 Years	8.17%	9.49%
Last 10 Years	5.12%	6.87%

Table 7

Near Term Outlook

Valuation as of July 1,	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Market Value of Fund	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)
2017	\$ 226,676,461	24.0%	\$ 71,756,352	2018	\$ 2,431,765	\$ 18,427,594	\$ 127,508	\$ 21,898,263	\$ (3,343,161)
2018	223,735,496	24.6%	73,210,824	2019	1,852,874	18,934,353	91,561	22,496,628	(3,470,714)
2019	219,921,024	25.3%	74,632,677	2020	1,330,515	19,455,048	61,907	23,000,569	(3,483,614)
2020	215,184,409	26.1%	76,138,377	2021	899,601	19,990,062	41,845	23,369,092	(3,337,185)
2021	209,486,774	27.1%	77,898,692	2022	608,069	20,539,789	26,664	23,648,231	(3,081,777)
2022	202,781,625	28.3%	80,044,029	2023	387,472	21,104,633	16,785	23,830,641	(2,709,223)

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

Table 8

Schedule of Funding Progress

Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial		Annual Benefits*	UAAL as % of Benefits (4)/(6)
			Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2009	\$ 76,142,283	\$ 286,514,010	\$ 210,371,727	26.6%	\$17,787,184	1182.7%
July 1, 2011	69,580,218	311,707,868	242,127,650	22.3%	18,532,731	1306.5%
July 1, 2013	62,796,555	309,774,579	246,978,024	20.3%	19,675,904	1255.2%
July 1, 2014	66,348,673	277,179,395	210,830,722	23.9%	19,753,740	1071.5%
July 1, 2015	69,244,289	277,320,653	208,076,364	25.0%	19,753,740	1053.4%
July 1, 2016	70,662,214	294,678,763	224,016,549	24.0%	20,192,173	1109.4%
July 1, 2017	71,696,888	298,373,349	226,676,461	24.0%	21,106,700	1074.0%

* Due to closed plan, exhibit was modified to compare the UAAL to the Annual Benefits

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 redetermined 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, beneficiaries, or inactive members. 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 either 20 years or the remaining average remaining life expectancy of the group, whichever is lesser. 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 investment expenses.

Actuarial Methods and Assumptions (Continued)

Actuarial Assumptions:

- 1. Interest** 6.90% per year, net of investment expenses.

- 2. Salary Increases** The sum of (i) a 3.50% wage inflation assumption (composed of a 2.75% price inflation assumption and a 0.75% 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%	13.50%
2	9.00	12.50
3	7.00	10.50
4	4.00	7.50
5	2.50	6.00
6	3.00	6.50
7	0.50	4.00
8	0.50	4.00
9 or more	0.00	3.50

Salary increases are assumed to occur once a year, on January 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.

Actuarial Methods and Assumptions (Continued)

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

Actuarial Methods and Assumptions (Continued)

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

Actuarial Methods and Assumptions (Continued)

6. Retirement Age

Rates of retirement are based on an employee’s length of service, as follows:

Firefighters/Police I Members	
Service	Retirement Election
20	12%
21	10%
22	10%
23	10%
24	12%
25	14%
26	16%
27	18%
28	20%
29	20%
30+	35%

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. Election of Fire II Program by Retiring Firefighters

We assume members who retire with 27 or more years of service will elect the Fire II plan.

11. Administrative Expenses

It was assumed administrative expenses will be equal to the actual administrative expenses for the previous fiscal year.

Outline of Principal Plan Provisions

A. FIREFIGHTERS

1. *Effective Dates*

- a. Original Plan May 7, 1953.
- b. Most Recent Amendment July 23, 1996.

2. *Eligibility*

All permanent members of the fire department hired prior to May 29, 1992.

3. *Retirement*

- a. Eligibility Members who have completed 20 years of service may retire.
- b. Benefit Formula The annual benefit at retirement is equal to 50% of highest annual salary, plus 1% of salary for each year of service in excess of 20 (maximum 10). For pension purposes, annual salary includes regular, holiday, and longevity pay. Members may also select the benefit formula for the Firefighters II Pension Fund. The Firefighter II benefit formula is 50% of the final year's compensation, plus 2% for each year of service from 20 to 25 years, plus 3% for each year of service from 25 to 30 years with a fixed 3% compound cost of living adjustment.
- c. Commencement Date Retirement benefits commence as of the first payroll period after retirement.
- d. 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.

Outline of Principal Plan Provisions (Continued)

4. *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 highest annual salary multiplied by full years of service at termination.
- c. Commencement Date 20th anniversary of employment.
- d. Form of Payment Same as retirement.

5. *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 Service-Related (and involving heart, lung, cancer or other Social Security disabilities). $66\frac{2}{3}\%$ 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.
Other Service Related and Non-Service Related. 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.

6. *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.

Outline of Principal Plan Provisions (Continued)

- 9. Retiree Cost-of-Living Increases** All benefits in pay status are indexed in accordance with the base salary increases provided to active employees. We have assumed 3.0% per annum in this valuation.
- 10. Service Purchase** 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 amount which represents the actuarial equivalent value of the benefit increase purchased.
- 11. Employee Contributions** Active members contribute 7% of their covered earnings (regular, holiday, and longevity).
- 12. Optional Retirement Under Fire II Program** Any firefighter retiring after July 23, 1996 may irrevocably elect to have his or her pension calculated under the City's Fire II program, including final year's compensation, a benefit multiplier increasing from 50% of pay after 20 years of service to 75% of pay after 30 years of service, and a fixed 3.0% annual cost-of-living increase.
- B. POLICE I**
- 1. Eligibility** Active and retired Police hired before February 1, 1971 are covered under this program.
- 2. Benefits** Benefits provided to remaining active police are in accordance with the proposed City's Code of Ordinances. Retirement, death, and disability benefits payable to retired members and beneficiaries are indexed in accordance with the base salary increases provided to active members of the police force.
- 3. Employee Contributions** Active members contribute 7% of their covered earnings (regular, holiday, and longevity).