

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, 2014

PREPARED: October 2014

00867346

DANZIGER &  
MARKHOFF LLP  
Attorneys at Law

October 2014

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, 2014.


Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended June 30, 2014. The Annual OPEB Cost for the Town of North Smithfield is \$756,422.

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 7.0% have also been included on page 2B, for illustrative purposes. The 7% results may not be relied upon for GASB #45 disclosure purposes; the plan is not pre-funded at this time.

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 July 1, 2013

Number of Plan Members:

Active Participants	289
Retired Participants	<u>30</u>
Total	319
Average Age of Actives	45 yrs.
Average Credited Service of Actives	11 yrs.
Current Covered Payroll	\$ 17,746,038
Market value of Assets as of July 1	\$ 0
Unfunded Accrued Liability	\$ 7,141,640
Annual Required Contribution (ARC)	\$ 788,624
OPEB Cost for the Year	\$ 756,422

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

**RESULTS AND DISCLOSURES**

<b><u>VALUATION RESULTS - (Cost to Town)</u></b>	(EPBO) Projected <u>Benefits</u>	(APBO) Proj. Unit Credit Accrued <u>Liability</u>
1. Actuarial present values as of July 1, 2013:		
(a) Actives	\$8,173,436	\$3,499,616
(b) Retirees & Beneficiaries	<u>\$3,642,024</u>	<u>\$3,642,024</u>
(c) Total	\$11,815,460	\$7,141,640
2. Accrued liability as of July 1, 2013	\$ 7,141,640	
3. Actuarial value of assets, July 1, 2013	\$ -0-	
4. Unfunded accrued liability, July 1, 2013	\$ 7,141,640	
5. Normal cost As of July 1, 2013	\$ 307,909	
6. Amortization of unfunded accrued liability (level dollar/open, over 30 years, 24 yrs. remain)	\$ 450,383	
7. Interest (rounded) on Normal Cost (\$12,316) and Amortization (\$18,016)	\$ 30,332	
8. Annual Required Contribution (ARC) (5+6+7)	\$ 788,624	

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	2,003,411	4,833,654	304,575	7,141,640
Assets (subt.)	0	0	0	0
Unfunded Accrued Liability	2,003,411	4,833,654	304,575	7,141,640
Normal Cost	141,544	140,048	26,317	307,909
Amortization of UAL	126,344	304,831	19,208	450,383
Interest to end of year	10,716	17,795	1,821	30,332
Annual Required Contribution	278,604	462,674	47,346	788,624
Annual OPEB Cost	269,570	440,879	45,973	756,422
End of yr OPEB Obligation	542,173	972,858	94,487	1,609,518

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	7,141,640	7,558,215	6,752,984
chg\$		416,575	(388,656)
chg%		5.8%	-5.4%
Normal Cost	307,909	338,152	280,122
chg\$		30,243	(27,787)
chg%		9.8%	-9.0%
Interest Cost	30,332	32,101	28,681
chg\$		1,769	(1,651)
chg%		5.8%	-5.4%

COMPARISON OF 4.0% VS. 7.0% DISCOUNT RATE

	<u>4.00%</u>	<u>7.00%</u>
Accrued Liability	7,141,640	5,551,285
Assets (subt.)	0	0
Unfunded Accrued Liability	7,141,640	5,551,285
Normal Cost	307,909	183,669
Amortization of UAL	450,383	452,346
Interest to end of year	30,332	44,521
Annual Required Contribution	788,624	680,536

TOWN OF NORTH SMITHFIELD  
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST  
FOR THE YEAR ENDED JUNE 30, 2014

Actual contribution information is included below.

<u>Contribution rates:</u>	Varies by employee class
Plan Members	(See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 788,624
Interest on net OPEB obligation	55,849
Adjustment to annual required contribution (-)	88,051
Annual OPEB cost	\$ 756,422
Contributions made*	\$ 543,119
Increase in net OPEB obligation	\$ 213,303
Net OPEB obligation-beginning of year	\$ <u>1,396,215</u>
Net OPEB obligation-end of year	\$ <u>1,609,518</u>

\*Contributions made include Medical and Dental premium payments of \$443,705 and "implied subsidy" payment credit of \$99,714.



TOWN OF NORTH SMITHFIELD  
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST  
FOR THE YEAR ENDED JUNE 30, 2015

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)	\$ 849,390
Interest on net OPEB obligation	64,381
Adjustment to annual required contribution (-)	104,169
Annual OPEB cost	\$ 809,602
Contributions made*	\$ 569,000
Increase in net OPEB obligation	\$ 240,602
Net OPEB obligation-beginning of year	\$ <u>1,609,518</u>
Net OPEB obligation-end of year	\$ <u>1,850,120</u>

\*Contributions made include proj. Medical and Dental premium payments of \$465,000 and "implied subsidy" payment credit of \$104,000.

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)	\$ 7,141,640
Actuarial value of plan assets (b)	\$ 0
Unfunded actuarial accrued liability (a – b)	\$ 7,141,640
Funded ratio (b / a)	0.0%
Covered payroll (c)	\$ 17,746,038
Unfunded actuarial accrued liability as percentage of covered payroll [(a – b) / c]	40%

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)

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2012	\$626,480	62.9%	\$1,154,324
6/30/2013	\$645,096	62.5%	\$1,396,215
6/30/2014	\$756,422	71.8%	\$1,609,518

*FYE 2012, 2013 entries were provided from FYE 2013 OPEB note.*

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>
7/1/2009	\$0	5,796,707	5,796,707	0.0%	15,979,607	36.3%
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%

*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 2014, there are 30 retirees plus dependents who are receiving employer subsidized benefits. We reflected known retirements and terminations in our database through June 30, 2013. Where data was missing or inaccurate, we assumed reasonable estimates. In all, we valued 289 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 9.0% 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 (2014) retiree premium rates provided to us by the Town (for Town & School) include:

- a) Pre-age 65 Individual MED: Ranges from \$588 to \$787 per month.
- b) Pre-age 65 Family MED: Ranges from \$1,509 to \$2,009 per month.
- c) Individual Dental: Ranges from \$23 to \$29 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**  
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**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 85% -100% toward medical and dental coverage, depending on employee category (Police, Teachers, Other Town, Other School). [82% - 100% in FYE 2015]



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, 2013
2. Discount Rate: 4.0% per annum – GASB discls.  
(7.0% full pre-funding/illustrative)
3. Salary Scale: Not applicable.
4. Mortality: RP-2000 Mortality Table  
(proj. 27 & 19 years).
5. Withdrawal: School: Select rates include (male):  
0yr, 17%; 5yr, 2.9%; 10yr, 1.2%;  
15yr, 1.2%; 20yr, 0.9%  
  
Police: Select rates include:  
0yr, 18%; 5yr, 5.8%; 10yr, 2.6%;  
15yr, 1.6%; 20yr, 1.1%  
  
Non-Police:  
Select rates include (male):  
0yr, 17.5%; 5yr, 10.9%; 10yr, 2.6%;  
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 years of service required  
 at retirement)

<u>Retirement Age</u>	<u>Retirement Rates (male)</u>
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 (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	9.0%
2	8.0%
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, Open, over 30 years. (24 years  
remain at 7/1/2013)