



nyhart

Town of Cumberland

Interim GASB 45 Actuarial Valuation

Fiscal Year Ending June 30, 2015

Prepared by:
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December 02, 2015

**Town of Cumberland
Brian Silvia
45 Broad Street
Cumberland, RI 02864**

This report summarizes the GASB 45 actuarial valuation for the Town of Cumberland 2014/15 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.

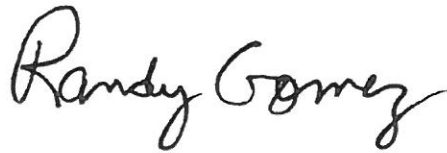
We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

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.

December 02, 2015

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, 2015 projected from the prior fiscal year valuation.

	<i>As of July 1, 2013</i>		<i>As of July 1, 2014</i>	
Actuarial Accrued Liability	\$	20,374,644	\$	17,131,832
Actuarial Value of Assets	\$	100,000	\$	581,200
Unfunded Actuarial Accrued Liability	\$	20,274,644	\$	16,550,632
Funded Ratio		0.5%		3.4%

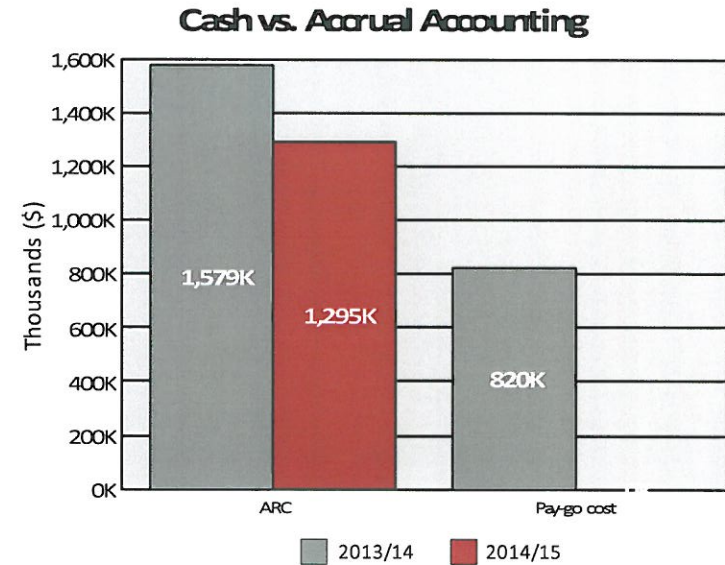
	<i>FY 2013/14</i>		<i>FY 2014/15</i>	
Annual Required Contribution	\$	1,578,750	\$	1,294,570
Annual OPEB Cost	\$	1,794,709	\$	1,536,770
Annual Employer Contribution	\$	1,320,001	\$	1,420,875

	<i>As of June 30, 2014</i>		<i>As of June 30, 2015</i>	
Net OPEB Obligation	\$	10,730,432	\$	10,846,327

Development of Annual Required Contribution (ARC)

Required Supplementary Information	FY 2013/14	FY 2014/15
Actuarial Accrued Liability as of beginning of year	\$ 20,374,644	\$ 17,131,832
Actuarial Value of Assets as of beginning of year	100,000	581,200
Unfunded Actuarial Accrued Liability (UAAL)	\$ 20,274,644	\$ 16,550,632
Covered payroll	N/A	N/A
UAAL as a % of covered payroll	N/A	N/A

Annual Required Contribution	FY 2013/14	FY 2014/15
Normal cost as of beginning of year	\$ 479,793	\$ 397,062
Amortization of the UAAL	988,812	807,189
Total normal cost and amortization payment	\$ 1,468,605	\$ 1,204,251
Interest to end of year	110,145	90,319
Total Annual Required Contribution (ARC)	\$ 1,578,750	\$ 1,294,570



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.

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation	FY 2013/14	FY 2014/15
ARC as of end of year	\$ 1,578,750	\$ 1,294,570
Interest on Net OPEB Obligation (NOO) to end of year	802,981	804,782
NOO amortization adjustment to the ARC	(587,022)	(562,582)
Annual OPEB cost	\$ 1,794,709	\$ 1,536,770
Annual employer contribution for pay-go cost	(820,001)	(0)*
Annual employer contribution for pre-funding	(500,000)	(1,420,875)
Change in NOO	\$ 474,708	\$ 115,895
NOO as of beginning of year	10,255,724**	10,730,432
NOO as of end of year	\$ 10,730,432	\$ 10,846,327

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 FY 2014/15, pay-go cost is being paid from the OPEB Trust.

** NOO as of beginning of 2013/14 fiscal year is based on \$11,120,706 actual NOO balance as of June 30, 2013 reduced by \$864,982 due to School's NOO reversal.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2015 compared to the prior fiscal year as shown in the Town's Notes to Financial Statement.

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, 2014	\$ 17,131,832	\$ 581,200	\$ 16,550,632	3.4%	N/A	N/A
July 1, 2013	\$ 20,374,644	\$ 100,000	\$ 20,274,644	0.5%	N/A	N/A
July 1, 2012	\$ 21,154,653	\$ 0	\$ 21,154,653	0.0%	N/A	N/A

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, 2015	\$ 1,420,875	\$ 1,294,570	109.8%
June 30, 2014	\$ 1,320,001	\$ 1,578,750	83.6%
June 30, 2013	\$ 1,311,166	\$ 1,657,531	79.1%

Historical Annual OPEB Cost

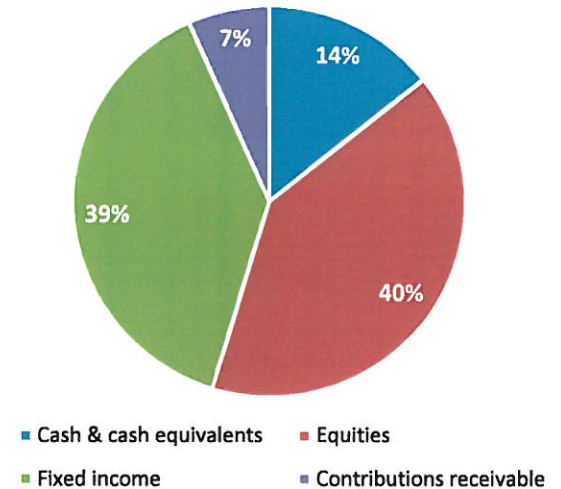
<i>As of</i>	<i>Annual OPEB Cost</i>	<i>% of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
June 30, 2015	\$ 1,536,770	92.5%	\$ 10,846,327
June 30, 2014	\$ 1,794,709	73.5%	\$ 10,730,432
June 30, 2013	\$ 1,860,604	70.5%	\$ 11,120,706

Asset Reconciliation

Summary of Assets	Market Value as of June 30, 2015	
General investments		
Cash and cash equivalent	\$	251,987
Fixed income		711,827
Equities		679,811
Accrued contributions		118,406
Total net assets	\$	1,762,031

Reconciliation of Market Value of Assets	FY 2013/14		FY 2014/15	
Market value of assets as of July 1	\$	100,000	\$	581,200
Revenues				
Employer contributions	\$	500,000	\$	1,302,469
Investment income net of expenses		(18,800)		38,406
Total	\$	481,200	\$	1,340,875
Expenditures				
Benefit payments	\$	0	\$	(278,450)
Market value of assets as of June 30	\$	581,200	\$	1,643,625
Accrued contribution		0		118,406 ¹
Final market value of assets as of June 30	\$	581,200	\$	1,762,031

Asset Breakdown as of 6/30/2015



¹ Deposit was made to the Trust after June 30, 2015.

Substantive Plan Provisions

Eligibility	Police officers hired prior to July 1, 2013 are eligible for lifetime retiree health coverage (medical and dental) from the Town once they attain 20 years of service. Officers hired on/after July 1, 2013 are not eligible for retiree health benefits. All other Town employees are only eligible for COBRA coverage at retirement.
Disability Pension	Police officers are eligible for duty disability pension without any age or years of service requirement. They will receive the same health benefits as regular retirees.
Spouse Benefit	Surviving spouse can continue coverage after the death of the retiree or active employees eligible to retire. Town subsidy continues to surviving spouse upon death of the retiree or active employee eligible to retire.
Retiree Cost Sharing	None; except for employees receiving disability pension that have to contribute the full cost of coverage until they would have had 20 years of service at retirement, at which time they will receive free coverage.
Medical Benefit	All officers retiring on/after July 1, 2013 must enroll in a \$3,000 HDHP plan upon retirement. All existing retirees are allowed to remain in the health plan they currently elected. Monthly working rates effective on July 1, 2013 through 2015 are as shown below:

Medical/Rx	Eff. 7/1/2013		Eff. 7/1/2014		Eff. 7/1/2015	
	Single	Family	Single	Family	Single	Family
Pre-65 Town Plans						
Police Plan A	\$ 641.51	\$ 1,655.50	\$ 614.01	\$ 1,584.53	\$ 506.66	\$ 1,307.50
Police Deductible Plan	\$ 625.30	\$ 1,613.66	N/A	N/A	N/A	N/A
Police HDHP \$2,000 Plan	N/A	N/A	\$ 597.80	\$ 1,542.69	\$ 493.28	\$ 1,272.97
Post-65 Town Plans						
Medicare Plan C	\$ 182.53	N/A	\$ 190.80	N/A	\$ 169.31	N/A
Medicare Rx Plan	\$ 179.00	N/A	\$ 179.00	N/A	\$ 179.00	N/A

Monthly working rates for the \$3,000 HDHP plan are not available as of June 30, 2013. We have assumed that the HDHP plan's monthly working rate is 85% of the weighted average by enrollment of Police Plan A and Police Deductible plan rates as of July 1, 2013.

Substantive Plan Provisions – Continued

Dental Benefit

Monthly dental working rates effective on July 1, 2013 are \$31.09 for single coverage and \$100.34 for family coverage.

School Liabilities

There is no longer GASB liability for School employees and retirees effective on July 1, 2012 as employees and existing retirees pay the full cost of retiree-appropriate working rates at retirement.

Medicare Part B Reimbursement

The Town pays for the monthly Medicare Part B premium of \$104.90 effective on January 1, 2015 for retiree and spouses.

Actuarial Methods and Assumptions

Discount Rate	7.5%
Payroll Growth	4.5% per year (for amortization purposes only)
Inflation Rate	3.0% per year
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level % of pay over thirty years based on an open group
Census Data	Census data was provided by the Town and they were collected in November 2013. We have reviewed it for reasonableness and no material modifications were made to the census data.
Health Care Coverage Election Rate	100% of active police officers with current coverage are assumed to elect coverage at retirement. 0% of active police officers without current coverage are assumed to elect coverage at retirement. 100% of retirees with current coverage are assumed to continue coverage in the future. 0% of retirees without current coverage are assumed to elect coverage in the future.
Spousal Coverage	Spousal coverage and ages for current retirees is based on actual data. 70% of employees is assumed to be married at retirement. Husbands are assumed to be three years older than wives.
Employer Funding Policy	Fully funding the difference between the Annual Required Contribution and pay-as-you-go cost
Mortality	RP-2000 Combined Mortality Table fully generational using Scale AA
Turnover Rate	Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months. No terminations are assumed for Police officers.

Actuarial Methods and Assumptions – Continued

Disability

Rates are based on MERS accidental disability rates used in June 30, 2011 actuarial valuation. Sample annual disability rates are as shown below.

Age	Rates
25	0.26%
30	0.33%
35	0.44%
40	0.66%
45	1.08%

Retirement Rate

Annual rates of retirement for Police officers are as shown below:

YOS	Rates
20	70%
21 – 24	10%
25	70%
26+	100%

Health Care Trend Rates

FYE	Medical	FYE	Medical
2014	Actual	2020	6.5%
2015	Actual	2021	6.0%
2016	8.5%	2022	5.5%
2017	8.0%	2023	5.0%
2018	7.5%	2024+	5.0%
2019	7.0%		

The initial trend rate was based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

Medicare Part B premium rates are assumed to be constant in 2014 and 2015, followed by an initial rate of 3.5% in 2016 increasing by 0.5% annually to an ultimate rate of 5.0%.

Actuarial Methods and Assumptions – Continued

Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

Per Capita Costs

Annual per capita costs were calculated based on the Town’s monthly working rates effective on July 1, 2013 actuarially increased using health index factors and current enrollment. The costs are assumed to increase with medical trend rates. Annual per capita costs by plan are as shown below:

Age	Current Retirees Plan A		Current Retirees Deductible Plan	
	Male	Female	Male	Female
<55	\$ 7,700	\$ 8,800	\$ 7,500	\$ 8,500
55 – 59	\$ 10,100	\$ 9,800	\$ 9,800	\$ 9,500
60 – 64	\$ 12,900	\$ 11,600	\$ 12,500	\$ 11,300

Age	Future Retirees	
	Male	Female
<55	\$ 6,500	\$ 7,400
55 – 59	\$ 8,500	\$ 8,300
60 – 64	\$ 10,900	\$ 9,800

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

Post-65 annual per capita cost is \$4,338 and it is assumed to increase with medical trend rates. Annual Medicare Part B reimbursement is \$1,259 and it is assumed to increase with Part B trend rates.