

October 16, 2015

# Actuarial Valuation Report:

## The City of Newport, Rhode Island Post-Retirement Benefits Plan as of July 1, 2015

HayGroup®



**Sanjit Puri, ASA, MAAA**  
Senior Principal

**James J. McPhillips, FSA, MAAA**  
Senior Principal

Hay Group, Inc.

---

## Contents

---

Section 1: Executive Summary .....	1
Section 2: Actuarial Cost Method.....	5
Section 3: Actuarial Assumptions.....	9
Section 4: Analysis of Plan Assets.....	12
Section 5: Financial Accounting Information .....	13
Section 7: Summary of Plan Provisions .....	26
Section 8: Participant Data .....	38
Section 9: Health Care Reform .....	39
Section 10: Analysis of Gains and Loss.....	41
Appendix: Annual OPEB Cost and Accrued Liability by Departments .....	42

## Section 1: Executive Summary

The City of Newport (the “City”) sponsors a post-retirement healthcare plan providing medical, prescription drug and dental benefits. For Police employees and School Teachers, post-retirement life insurance benefits are also provided. Eligible City retirees and their dependents may continue health care coverage through the City. The plan covers eligible retirees who elect to participate and pay required contributions.

The calculations were made as of July 1, 2015 using census data as of that date and recent health care premium information. We have not audited the data provided to us by the City, but have reviewed it for reasonableness and, based on that review, we believe it is appropriate for use in this valuation. Furthermore, the City has confirmed the plan provisions summarized in Section 6 of this report.

### **GASB 45**

Before July 1, 2005, the City accounted for the retiree medical benefits on a cash basis. Beginning July 1, 2005, the City implemented Governmental Accounting Standards Board (GASB) Statement Number 45 on Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. (These benefits are also referred to as Other Post-employment Benefits, or OPEBs.) This standard requires the City to account for these benefits on an accrual basis. A description of the GASB standard can be found in Section 2.

### **Amortization Methods**

The GASB 45 standard requires the initial unfunded actuarial accrued liability to be amortized, but allows the employer the choice of actuarial cost methods using either Level Dollar or Level Percent of Pay. The Level Dollar approach sets up an amortization schedule with equal dollar amounts for each year over the amortization period. The Level Percent of Pay approach sets up an amortization schedule where the amount increases each year in line with expected pay increases. As both methods amortize the same initial amount, the Level Dollar amortization amount in the first year is larger than the Level Percent of Pay amount.

Starting with Fiscal Year 2013 the City has chosen to amortize the initial unfunded actuarial accrued liability over 25 years (closed period) using a Level Percent of Pay approach.

### **Health Care Trend Rates**

The accounting standard requires employers to anticipate future health care costs by adjusting today’s premiums with projected health care trend rates. Health care costs have outpaced general inflation and the annual rate of change has fluctuated significantly over time. It is difficult to accurately predict health care cost increases even one or two years into the future, so to provide the City with an indication of the likely cost we have determined the liability using a best estimate set of health care trend rates. These

rates anticipate initial rates over five percent per year, declining over time to an ultimate (longer-term) rate of 4.24 percent per year.

### **Key Valuation Results**

We have calculated the post-retirement medical liabilities for the current retirees and employees covered under the City's health plan as of July 1, 2015. The liabilities were calculated using a discount rate of 7.50 percent. Table 1 below shows the baseline valuation results.

We have shown two measures of the liability: the actuarial accrued liability, and the normal cost. The actuarial accrued liability is the portion of the present value of future benefits attributable to employee service rendered prior to July 1, 2015. The normal cost is the portion of the present value of benefits attributable to employee service rendered in Fiscal Year 2016.

The City has set up an OPEB Trust to fund these benefits. The Unfunded Actuarial Accrued Liability as of July 1, 2015 is \$82.8 million. The Normal Cost as of July 1, 2015 is \$2.19 million.

The City pays a portion of the total health insurance premium costs with the remainder paid by the retired employees. For the fiscal year ending June 30, 2016, these costs are expected to be approximately \$6.66 million, and are projected to grow due to the combination of a growing retiree population and annual increases in health care costs. For example, the projected cash cost for Fiscal Year 2017 is approximately \$7.64 million and the projected cash cost for Fiscal Year 2020 is approximately \$9.09 million.

The actuarial assumptions are described in Section 4.

### **Annual Required Contribution and Annual OPEB Cost**

The Annual Required Contribution (ARC) is the sum of the Normal Cost and the Amortization payment on the Unfunded Actuarial Accrued Liability.

For an organization that funds the ARC each year, the Annual OPEB Cost is the ARC. Where the amount funded in a prior year (or years) was not equal to the ARC, the Annual OPEB Cost includes two additional elements:

1. Interest on the unfunded ARC (or overfunded ARC), and
2. Adjustment to the ARC to prevent double accrual of principal payments on the unfunded actuarial accrued liability

Table 1 shows the valuation results and the derivation of the Annual Required Contribution and Annual OPEB Cost, and the comparison to the prior year.

**Table 1**  
**Annual Required Contribution**

<b>Valuation Results</b>	<b>July 1, 2015</b>	<b>July 1, 2014</b>
1. Actuarial Accrued Liability	119,419,305	\$ 118,221,315
2. Assets as of 6/30	<u>36,639,832</u>	<u>34,805,533</u>
3. Unfunded Actuarial Accrued Liability (1. – 2.)	82,779,473	83,415,782
4. Normal Cost	2,187,343	1,879,407
 <b>Amortization Cost</b>		
5. Unfunded Actuarial Accrued Liability	\$82,779,473	\$83,415,782
6. Amortization Cost	5,805,966	4,979,773
 <b>Annual OPEB Contribution</b>		
7. Normal Cost	\$2,187,343	\$1,879,407
8. Amortization Cost	<u>5,805,966</u>	<u>4,979,773</u>
9. Total ARC	7,993,309	6,859,180
10. Interest on unfunded (overfunded) ARC	384,265	413,452
11. ARC adjustment	<u>(359,353)</u>	<u>(329,098)</u>
12. Total (9.) + (10.) + (11.)	8,018,221	6,943,534
 <b>Assumptions</b>		
Discount Rate	7.50%	7.50%
Ultimate Healthcare Cost Trend Rate	4.24%	3.80%
 <b>Participants</b>		
Active	637	630
Inactive	526	532


## Actuarial Certification

The City retained Hay Group to perform an actuarial valuation of the Post-Retirement Benefits Plan to provide a determination of the actuarial accrued liability and the Annual Required Contribution under the GASB standard. Use of the valuation results for other purposes may not be appropriate.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

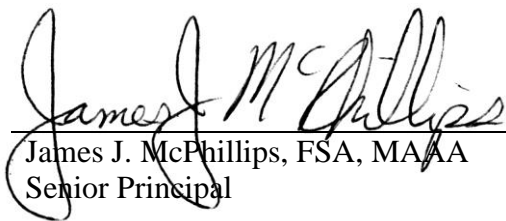
The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results. The reason for this is that actuarial standards of practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The actuaries certifying to this valuation are members of the Society of Actuaries and other professional actuarial organizations, and together meet the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

A handwritten signature in black ink that reads "Sanjit Puri".

---

Sanjit Puri, ASA, MAAA  
Senior Principal

A handwritten signature in black ink that reads "James J. McPhillips".

---

James J. McPhillips, FSA, MAAA  
Senior Principal

## Section 2: Actuarial Cost Method

This section explains the actuarial methodology used for valuation of the post-retirement benefits program for the current City population.

### Governmental Accounting Standards Board (GASB)

In June, 2004, the Governmental Accounting Standards Board (GASB) issued its standard on *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs).

The standard covers both post-retirement and post-employment benefits. Typical benefits covered under the Standard could include:

- Medical
- Prescription drugs
- Dental
- Vision
- Hearing
- Life insurance
- Long term disability
- Long term care

If any of these benefits are provided through a pension plan they continue to be accounted for under GASB 25 — otherwise they will be accounted for under GASB 45.

The actuarial profession revised and updated its Actuarial Standard of Practice, reissuing ASOP #6 — *Measuring Retiree Group Benefit Obligations* in December 2001. The GASB standard directs users to this actuarial standard for guidance on selection of actuarial assumptions.

The City, as an employer with more than \$100 million of revenue, adopted the standard early, beginning with the financial reporting year July 1, 2005 thru June 30, 2006.

Governmental employers should recognize that OPEBs constitute compensation for employee service and they should recognize the cost of benefits during the periods when employee service is rendered. By accounting for OPEBs, GASB believes the accounting statement will improve the relevance and usefulness of financial reporting, provide information about the size of the liabilities and the extent to which they are funded, and ensure systematic accrual-basis measurement over employee service.

While the standard requires governmental employers to adopt accrual accounting, the standard sets out a broad range of options for employers. These options include:



- Timing of adoption
- Actuarial cost method
- Period for amortizing the unfunded liability
- Measurement date
- Frequency of valuations

The most common and most expensive of the OPEBs are retiree medical benefits, which provide a valuable component in an employee's retirement benefits program. Most governmental employers fund their retiree medical plans on a pay-as-you-go basis. The GASB standard does not require employers to advance fund these benefits; however, certain aspects of the measurement provide advantages for employers that fund the OPEB.

### **Actuarial Cost Method**

A fundamental principle in financing the liabilities of any retirement program is that the cost of the benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. There are several acceptable actuarial methods given in the GASB standard. The method used for this valuation is the "projected unit credit method."

Under the projected unit credit method, a portion of an employee's projected benefit at retirement is allocated to (i.e., deemed to accrue in) each year of service. The actuary develops a "normal cost" as the amount that can be expected to fund the benefits accrued by all employees in the current year. The cost method determines the normal cost as a dollar amount.

### **Actuarial Accrued Liability**

The actuarial accrued liability is the portion of the present value of projected benefits which has been accrued during the employee's working life from hire to the valuation date. Another way of viewing this liability is the portion of the present value of projected benefits that will not be funded by future normal costs. Therefore, as long as participants enter the system with no past service credit (as is assumed in this case), there is no actuarial accrued liability for a new entrant. Furthermore, the full present value of benefits is accrued by the end of each employee's working life.

The difference between the actuarial accrued liability and the funds accumulated as of the valuation date is referred to as the unfunded actuarial accrued liability. Unfunded actuarial accrued liabilities generally exist when (1) the liabilities are not fully funded, (2) benefits have been earned for periods in which no normal cost has been paid or (3) the amounts that have been funded were inadequate because of losses, changes in assumptions, changes in the funding method, or benefit improvements. In other words, the unfunded actuarial accrued liability equals the actuarial accrued liability less the value of the assets, if any, set aside to fund the plan's benefit obligations.

The Annual Required Contribution (ARC) consists of two principal components: (1) a normal cost, which pays for benefits being earned in the current reporting period, and (2) amortization of the unfunded



actuarial accrued liability, which pays for benefits previously earned but not paid for. Adjustments are made to the ARC for prior unfunded or overfunded ARC amounts, and to prevent double accrual of principal payments on the unfunded accrued liability.

### **Normal Cost**

The normal cost represents the amount charged for service earned during the current reporting period. As stated in the previous section, the projected unit credit actuarial cost method is used in determining the normal cost. Under this method, the normal cost is calculated by allocating the present value of projected benefits over all years of service.

### **Valuation Results**

Table 2 shows the actuarial accrued liability, the normal cost, and the development of the Annual Required Contribution and Annual OPEB Cost.

The table shows the results of the current year and prior year for two separate populations: retired employees and their dependents, and active employees who are expected to receive benefits and their dependents.

**Table 2**  
**Post-Retirement Medical Valuation**

<b>Detailed Valuation Results</b>	<b>July 1, 2015</b>	<b>July 1, 2014</b>
<b>Actuarial Accrued Liability</b>		
Current Retirees	\$82,214,698	\$86,205,886
Future Retirees	<u>\$37,204,606</u>	<u>\$32,015,429</u>
Total	119,419,305	\$ 118,221,315
<b>Normal Cost</b>		
Current Retirees	\$0	\$0
Future Retirees	<u>\$2,187,343</u>	<u>\$1,879,407</u>
Total	2,187,343	\$1,879,407
<b>Annual Required Contribution</b>		
<b>Using 30-year Amortization</b>		
Normal Cost	\$2,187,343	\$1,879,407
Amortization Cost	<u>5,805,966</u>	<u>4,979,773</u>
Total ARC	7,993,309	\$6,859,180
Interest on unfunded (overfunded) ARC	384,265	413,452
ARC adjustment	<u>(359,353)</u>	<u>(329,098)</u>
Total OPEB Cost	8,018,221	\$6,943,534

### Section 3: Actuarial Assumptions

In accordance with GASB 45, selection of all actuarial assumptions, including the health care cost trend rate in valuations of post-employment health care plans, should be guided by Actuarial Standard of Practice No. 6, Measuring Retiree Group Benefit Obligations, as revised from time to time by the Actuarial Standards Board. Accordingly, actuarial assumptions should be based on the actual experience of the covered group, to the extent that credible experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent past experience. The reasonableness of each actuarial assumption should be considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions.

The actuarial assumptions used to value the post-retirement medical liabilities can be categorized into three groups: economic assumptions, healthcare assumptions, and demographic assumptions.

#### Economic Assumptions

The two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

##### *Discount Rate*

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that are being partially funded.

The City has established an OPEB Trust, and has a stated funding policy to contribute the ARC each year. This contribution pattern has generally held true. Therefore, the discount rate is based on the assumption that this policy continues and on the long-term investment policy for the OPEB Trust. Thus, the discount rate is assumed to be 7.50 percent.

##### *Health Care Cost Trend Rates*

Because there are less than 750 enrollees in the City's retiree health benefit plan, claim levels can be expected to vary significantly from year to year (a plan typically needs at least 5,000 non-Medicare enrollees or 2,000 Medicare-eligible enrollees before its claim experience becomes fully credible). Given the limited data from the city plan, the assumed health care cost trend rates should be based on experience from other, similarly situated employers.

The medical trend assumptions used in the valuation were developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model (Version 12.2). The following assumptions were used as input variables into this model:

Rate of Inflation	2.50%
Rate of Growth in Real Income/ GDP per capita	1.7%
Income Multiplier for Health Spending	1.4
Extra Trend due to Technology and other factors	1.1%
Health Share of GDP Resistance Point	25.0%
Year for Limiting Cost Growth to GDP Growth	2075

The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables were developed under the guidance of the SOA Project Oversight Group.

Table 3 below shows, for select years, the recommended Health Care Cost trend rates to be used for this actuarial valuation, which are the outputs of the SOA Long-Run Medical Cost Trend Model generated by the above-listed input variables. This set of health care trend rates has an initial health care cost trend rate of 5.7 percent, which rises gradually for many years before declining gradually and then, in 70 years (i.e., in 2084), reaching an ultimate trend rate of 4.24 percent. To provide an example, under these assumptions, a cost of \$1,000 in 2015 will grow to a cost of \$2,385 in 2030.

<b>Table 3</b> <b>Health Care Cost Trend Rate</b> <b>Assumptions</b> <b>Annual Trend</b>	
<b>Year</b>	<b>Trend</b>
2015	5.7
2016	6.1
2017	6.1
2020	6.0
2025	5.8
2030	6.0
2035	5.9
2040	5.3
2050	5.0
2060	4.9
2070	4.8
2084 & Ultimate	4.24

### Medical Assumptions

The valuation projects the health care costs for employees who remain with the City with coverage after retirement. The data provided to us included claim information for covered retirees. Based on the data provided, we calculated per capita costs for the retired group under 65 and the retired group age 65 and older and show them table 4 below. Retirees generally become eligible for Medicare at age 65.

Table 4 Medical Claim Costs				
Age Group	School Employees		Police / Fire / General Employees	
	Current Retirees	Future Retirees	Current Retirees	Future Retirees
<50	\$ 6,317	\$ 6,317	\$ 6,138	\$ 6,138
50-54	\$ 6,317	\$ 6,317	\$ 6,138	\$ 6,138
55-59	\$ 7,032	\$ 7,032	\$ 6,833	\$ 6,833
60-64	\$ 8,087	\$ 8,087	\$ 7,858	\$ 7,858
65-69	\$ 6,003	\$ 5,892	\$ 4,107	\$ 4,107
70-74	\$ 6,549	\$ 6,428	\$ 4,480	\$ 4,480
75-79	\$ 7,111	\$ 6,979	\$ 4,865	\$ 4,865
80-84	\$ 6,987	\$ 6,858	\$ 4,780	\$ 4,780
>85	\$ 6,987	\$ 6,858	\$ 4,780	\$ 4,780

### Demographic Assumptions

The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions include the age of female spouses, coverage rates, and participation rates. The complete set of demographic assumptions is included in Section 5.

## Section 4: Analysis of Plan Assets

### 4.1. Schedule of Receipts and Disbursements

(1) Market Value at June 30, 2014	<b>\$34,805,533</b>
(2) Market Value at July 1, 2014	<b>\$34,805,533</b>
(3) Receipts	
a. City Contributions	500,000
b. Net Investment Income	<u>1,398,817</u>
c. Total Receipts	<b>1,898,817</b>
(4) Administrative Expenses	<b>64,518</b>
(5) Market Value at June 30, 2015 [(2) + (3)c. - (4)]	<b>\$36,639,832</b>

### 4.2. Trust Investment Yield for 12 Months Ending June 30, 2015

1. Asset Market Value at July 1, 2014	\$34,805,533
2. City Contributions during the year	500,000
3. Expenses paid during the year	(64,518)
4. Asset Market Value at June 30, 2015	36,639,832
5. Investment Increment	1,398,817
6. Approximate Average Asset Market Value (1) + (2) + [(3) / 2]	35,273,274
7. Approximate Yield Rate (5) / (6)	3.97%

## Section 5: Financial Accounting Information

In addition to establishing the Annual Required Contribution (ARC), this report shows the progress toward funding of the plan benefits. This schedule of funding progress reports the information that is required by Governmental Accounting Standards Board (GASB) Statement No. 43, which covers reporting by the plan itself and the associated OPEB Trust (as opposed to reporting by the employer).

### GASB No. 43 Disclosures Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actual Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2005	\$0	\$123,721,034	\$123,721,034	0.00%	\$34,464,574	359.0%
7/1/2006	\$1,413,713	\$132,314,905	\$130,901,192	1.07%	\$33,519,292	390.5%
7/1/2007	\$2,184,740	\$131,650,381	\$129,465,641	1.66%	\$36,112,767	358.5%
7/1/2008	\$4,476,103	\$142,838,552	\$138,362,449	3.13%	\$38,914,022	355.6%
7/1/2009	\$8,486,653	\$125,947,132	\$117,460,479	6.74%	\$36,366,493	323.0%
7/1/2010	\$13,952,666	\$150,082,585	\$136,129,919	9.30%	\$38,198,664	356.4%
7/1/2011	\$20,075,296	\$146,820,053	\$126,744,757	13.67%	\$37,623,567	336.9%
7/1/2012	\$23,113,176	\$119,342,233	\$96,229,057	19.37%	\$38,064,841	252.8%
7/1/2013	\$29,027,818	\$119,400,005	\$90,372,187	24.31%	\$37,728,040	239.5%
7/1/2014	\$34,805,533	\$118,221,315	\$83,415,782	29.44%	\$38,097,950	219.0%
7/1/2015	\$36,639,832	\$119,419,305	\$82,779,473	30.68%	\$40,192,005	206.0%

### Schedule of Employer Contributions

Fiscal Year	Annual OPEB Contribution	Actual Contribution	Percentage Contributed
2006	\$9,706,604	\$5,239,666	53.98%
2007	\$9,282,550	\$6,993,126	75.34%
2008	\$9,997,870	\$7,232,426	72.34%
2009	\$10,615,386	\$11,099,555	104.56%
2010	\$9,243,181	\$11,241,301	121.62%
2011	\$11,191,505	\$9,810,529	87.66%
2012	\$9,519,080	\$10,261,400	107.80%
2013	\$7,687,252	\$9,320,601	121.25%
2014	\$7,304,803	\$7,836,934	107.28%
2015	\$6,943,534	\$7,332,694	105.60%



Fiscal Year	Annual OPEB Contribution	Actual Contribution	Percentage Contributed
2016	\$8,018,221	TBD	TBD

**Development of the Net OPEB Obligation**

Actuarial Valuation Date	Annual Required Contribution (a)	Interest on Net OPEB Obligation (b)	Adjustment of the ARC (c)	Annual OPEB Cost (d) = (a) + (b) + (c)	Actual Contribution (e)	Increase in Net OPEB Obligation (f) = (d) - (e)	Net OPEB Obligation at end of year (g) = prior year (g) + (f)
7/1/2005	\$9,706,604	\$0	\$0	\$9,706,604	\$5,239,666	\$4,466,938	\$4,466,938
7/1/2006	\$9,282,550	\$0	\$0	\$9,282,550	\$6,993,126	\$2,289,424	\$6,756,362
7/1/2007	\$9,642,801	\$355,069	\$0	\$9,997,870	\$7,232,426	\$2,765,444	\$9,521,806
7/1/2008	\$10,238,391	\$376,995	\$0	\$10,615,386	\$11,099,555	(\$484,169)	\$9,037,637
7/1/2009	\$9,050,275	\$677,823	(\$484,917)	\$9,243,181	\$11,241,301	(\$1,998,120)	\$7,039,517
7/1/2010	\$10,751,437	\$557,188	(\$117,120)	\$11,191,505	\$9,810,529	\$1,380,976	\$8,420,493
7/1/2011	\$9,380,150	\$631,537	(\$492,607)	\$9,519,080	\$10,261,400	(\$742,320)	\$7,678,173
7/1/2012	\$7,544,617	\$575,863	(\$433,228)	\$7,687,252	\$9,320,601	(\$1,633,349)	\$6,044,824
7/1/2013	\$7,201,977	\$453,362	(\$350,536)	\$7,304,803	\$7,836,934	(\$532,131)	\$5,512,693
7/1/2014	\$6,859,180	\$413,452	(\$329,098)	\$6,943,534	\$7,332,694	(\$389,160)	\$5,123,533
7/1/2015	\$7,993,309	\$384,265	(\$359,353)	\$8,018,221	TBD	TBD	TBD

## Section 6: Actuarial Methods and Assumptions

### City of Newport - All Groups

**Interest:** Full Prefunding: 7.50% per year, net of investment expenses.

**Actuarial Cost Method:** Projected Unit Credit. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be first eligibility for retiree medical benefits.

**Asset Valuation Method:** Market Value. Assets allocated to non-school departments in proportion to the particular department's Actuarial Accrued Liability.

<b>Medical Care Inflation</b>	<b>Year</b>	<b>Inflation Rate</b>
	2015	5.7%
	2016	6.1%
	2017	6.1%
	Ultimate	4.2%

**Amortization Period:** 22-year (remaining) level percent of pay, closed basis. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

**Participation:** 100% of future retirees are assumed to participate in the retiree medical plan and 100% of future Police retirees are expected to elect life insurance.

Members with buy back options are assumed to participate in the retiree medical plan when they retire.

**Pre-Age 65 Retirees:** Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65.

Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.

***Post-Age 65 Retirees:***

Current grandfathered retirees over age 65 are valued as remaining in their current medical plan; all other retirees are assumed to participate in Plan 65. It is assumed that all future retirees will enroll in Plan 65 upon reaching age 65, except that Teachers in the Extended Benefit Program who retired prior to August 31, 2005 are assumed to remain in their current medical plan.

***Medical Plan Costs:***

The City is self-insured. Assumed per capita costs for pre-Medicare coverage were based on plan premiums adjusted for age-based morbidity as detailed below.

Plan costs for certain School retirees who are over the age of 65 and not indicated as being covered by Plan 65 are based on actual plan premiums, adjusted for age-based morbidity, but with no adjustment for covered children. No offset for Medicare is assumed for this group.

It is assumed that administrative costs are included in the premium rates.

We have not valued any liability for dental benefits as it is our understanding that retirees pay the full cost for these benefits.

***Medicare Part B Premium:***

\$104.90 per month for 2015, assumed to increase 5.0% per year. The trend rate used to project the Medicare Part B Premiums was calculated from the Medicare Trustees report and is different than the Getzen model trend rates used in the projection of the medical and prescription drug costs.

***Dental Insurance:***

Premiums paid for retiree pay all dental coverage are assumed to be self-supporting, based on our understanding of the arrangements involved.

***Life Insurance:***

Valued per actual benefit amounts in force, assuming a 10% administrative load. For valuation purposes, retiree contributions are not assumed to increase. Supplementary retiree life insurance is assumed to be paid for by employees and retirees, without any cost to the employer.

---

## City of Newport - Fire

---

***Mortality:***

Healthy Members

Mortality Assumptions Used in the Current Valuation:

RP-2000 Combined Healthy Mortality Table, applied on a fully generational basis using Mortality Projection Scale AA. This table contains sufficient margin for improvement in life expectancy.

Disabled Members

The 1985 Wyatt Pension Disability Table (unisex rates)

***Disability:***

Rates of disability are based on an employee's age. Selected ages are listed below.

Attained Age	Probability of Disability
25	0.17%
35	0.29%
45	0.72%
55	1.21%

***Withdrawal:***

Rates of withdrawal are based on an employee's length of service, as follows:

Years of Service	Probability of Withdrawal
Less than 1	3.00%
1	2.25%
2	2.00%
3	1.75%
4	1.50%
5	1.25%
6	1.00%
7	0.75%
8	0.50%
9	0.25%
10 or more	0.00%

***Retirement:***

Retirement rates are based on an experience study conducted by Hay Group in 2014:

Years of Service	Retirement Rate
20	10%
21	2%
22	2%
23	2%
24	2%
25	40%
26	10%
27	10%
28	10%
29	10%
30	40%
31	20%
32	20%
33	20%
34	20%
35+	100%

Vested terminated employees are assumed to commence benefits 10 years after the date of termination.

***Marital Status:***

80% of male employees and 80% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

---

## City of Newport - Police

---

***Mortality:***

Healthy Members

Mortality Assumptions Used in the Current Valuation:

RP-2000 Combined Healthy Mortality Table, applied on a fully generational basis using Mortality Projection Scale AA. This table contains sufficient margin for improvement in life expectancy.

Disabled Members

The 1985 Wyatt Pension Disability Table (unisex rates)

***Disability:***

Rates of disability are based on an employee's age. Selected ages are listed below.

Attained Age	Probability of Disability
25	0.17%
35	0.29%
45	0.72%
55	1.21%

***Withdrawal:***

Rates of withdrawal are based on an employee's length of service, and are based on an experience study conducted by Hay Group in 2014:

Years of Service	Withdrawal Rates
< 1	4.50%
1	3.38%
2	3.00%
3	2.63%
4	2.25%
5	1.88%
6	1.50%
7	1.13%
8	0.75%
9	0.38%
10+	0.00%



***Retirement:***

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

Years of Service	Retirement Rates
20	10%
21	2%
22	2%
23	2%
24	2%
25	40%
26	10%
27	10%
28	10%
29	10%
30	40%
31	20%
32	20%
33	20%
34	20%
35+	100%

The above rates for years of service 21 through 29 have been adjusted since the prior valuation to reflect a somewhat different expected pattern of retirements as a result of negotiated benefit formula changes that became effective July 1, 2014.

Vested terminated employees are assumed to commence benefits 10 years after the date of termination.

***Marital Status:***

80% of male employees and 80% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

## City of Newport - Teachers

### ***Mortality:***

Healthy Members

#### Mortality Assumptions Used in the Current Valuation:

RP-2000 Combined Healthy Mortality Table, applied on a fully generational basis using Mortality Projection Scale AA. This table contains sufficient margin for improvement in life expectancy.

Disabled Members

The 1985 Wyatt Pension Disability Table (unisex rates)

### ***Disability:***

Age	Ordinary Disability		Accidental Disability	
	Male	Female	Male	Female
25	0.15%	0.15%	0.08%	0.08%
30	0.18%	0.18%	0.10%	0.10%
35	0.24%	0.24%	0.13%	0.13%
40	0.36%	0.36%	0.19%	0.19%
45	0.59%	0.59%	0.32%	0.32%
50	0.99%	0.99%	0.54%	0.54%
55	1.65%	1.65%	0.89%	0.89%
60	2.30%	2.30%	1.24%	1.24%

### ***Withdrawal:***

Age	Male	Female
20	20.00%	20.00%
25	20.00%	20.00%
30	12.00%	14.00%
35	8.00%	11.30%
40	6.50%	8.60%
45	5.80%	6.00%
50	5.40%	5.00%
55	0.00%	0.00%

***Retirement:***

Age	Male	Female
45	10.00%	5.00%
50	16.00%	12.00%
55	26.00%	22.00%
60	40.00%	35.00%
62	25.00%	25.00%
65	25.00%	35.00%
70	100.00%	100.00%

***Marital Status:***

80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

***Employee Contributions:***

Teacher employees who have elected the Extended Benefit plan contribute 5% of pay while employed. The value of future contributions is not directly reflected in the valuation. The Annual Required Contribution amount is assumed to reflect the overall contribution amount for the fiscal year, with the City's required Normal Cost contribution to be directly reduced by any contribution made by the employees. This treatment is consistent with the unit credit actuarial cost method. The valuation does not reflect an estimated value of return of contributions for amounts contributed prior to the valuation date.

---

## City of Newport - General Employees

---

***Mortality:***

Healthy Members

Mortality Assumptions Used in the Current Valuation:

RP-2000 Combined Healthy Mortality Table, applied on a fully generational basis using Mortality Projection Scale AA. This table contains sufficient margin for improvement in life expectancy.

Disabled Members

The 1985 Wyatt Pension Disability Table (unisex rates)

***Disability:***

Age	Ordinary Disability		Accidental Disability	
	Male	Female	Male	Female
25	.25%	.36%	.20%	.09%
30	.30%	.44%	.25%	.11%
35	.41%	.60%	.34%	.15%
40	.61%	.88%	.50%	.22%
45	.99%	1.44%	.81%	.36%
50	1.68%	2.44%	1.37%	.61%
55	2.78%	4.04%	2.27%	1.01%
60	3.88%	5.64%	3.17%	1.41%

***Withdrawal:***

(Higher rates in effect for first 9 years of service)

Age	Male	Female
20	4.14%	4.14%
25	3.15%	3.15%
30	2.52%	2.52%
35	2.10%	2.10%
40	1.95%	1.95%
45	1.73%	1.73%
50	1.44%	1.44%
55	0.00%	0.00%

---

***Retirement:***

<b>Age</b>	<b>Male</b>	<b>Female</b>
45	10.00%	10.00%
50	15.00%	10.00%
55	15.00%	15.00%
60	25.00%	20.00%
62	25.00%	30.00%
65	25.00%	30.00%
70	100.00%	100.00%

***Marital Status:***

80% of male employees and 70% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

## Section 7: Summary of Plan Provisions

---

### City of Newport - All Groups

---

Participants who retire with a disability receive the same benefits as regular retirees and remain in their chosen plan until age 65, at which time they are enrolled in Plan 65.

---

## City of Newport - Fire

---

### **Retirement Eligibility**

- 25 years from hire date for those with 10 or more years of vesting service
- Age 58 or 30 years of service for employees hired after July 1, 2011.

### **Vesting Eligibility**

10 years of service.

### **Disability Eligibility**

10 years of service

### **Duration of Benefits**

- Retirees who were hired after July 1, 2011 and their spouses will be covered until age 65.
- All other retirees and spouses are covered for lifetime.
- Surviving spouses pay the full cost of coverage.

### **Medical Coverage**

- Retirees may select from Classic Blue, Healthmate Traditional, Bluechip, or Plan 65.
- Employees retiring on or after July 1, 1999 are covered by Plan 65 after reaching age 65.

### **Retiree Contribution Toward Medical Coverage**

- Fire employees who retired before September 13, 2007 do not incur a cost.
- Fire employees who retired after September 13, 2007 and before December 31, 2011 pay a cost share equal to 1% of their pension (with annual COLA increases).
- Fire employees who retire after December 31, 2011 pay a cost share equal to 2% of their pension (with annual COLA increases).
- For pre-Medicare benefits, retirees must pay any plan cost in excess of the cost of the same level of coverage under the Healthmate Plan 200.
- For retirees with less than 25 years of service, the City contribution is reduced 4% per year of service less than 25.

### **Life Insurance**

None.



---

## City of Newport - Police

---

### **Retirement Eligibility**

- Hire date after July 1, 2014: 25 years of service
- Hire date before July 1, 2014: 20 years or service.

### **Vesting Eligibility**

10 years of service.

### **Disability Eligibility**

10 years of service

### **Duration of Benefits**

- Retirees who were hired after July 1, 2009 will not be eligible for medical coverage after age 65.
- All other retirees and spouses are covered for lifetime.
- Surviving spouses pay the full cost of coverage.

### **Medical Coverage**

- Retirees may select from Classic Blue, Healthmate Plan 200, Bluechip, or Plan 65.
- Employees retiring on or after July 1, 1997 are covered by Plan 65 after reaching age 65.

### **Retiree Contribution Toward Medical Coverage**

- Police employees who had 25 years of service as of January 1, 2007 are not required to contribute.
- Police employees who had 20 years of service as of July 1, 2007 and who retired prior to July 1, 2013 are not required to contribute.
- All Police employees retiring on or after July 1, 2014 will pay a cost share equal to 5% of the Retired Members' Healthcare Premiums.
- For pre-Medicare benefits, retirees must pay any plan cost in excess of the cost of the same level of coverage under the Healthmate Plan 200.
- In addition, for post-July 1, 1997 retirees with less than 20 years of service, the City contribution is reduced 5% per year of service less than 20.
- Employees who retire on or after July 1, 2014 shall only be entitled to health insurance if they served at least 20 years.

### **Life Insurance**

- Retired police with at least 10 years of service receive \$25,000 in retiree life insurance.
- Retirees pay \$10.00 per month for this coverage.

---

## City of Newport - Teachers

---

### **Retirement Eligibility**

As of July 1, 2012, retirement eligibility dates are as follows:

(i) Vested – 10 years of service as of July 1, 2005 and eligible to retire September 30, 2009

(ii) Vested – 10 years of service as of September 30, 2009 and 65 years old.

(iii) Vested – Hired after September 30, 2009: retirement age is normal age at which the individual becomes eligible for social security

### **Vesting Eligibility**

As of July 1, 2012, 5 years of contributing service.

### **Disability Eligibility**

Ordinary disability – 5 years of service.

### **Duration of Benefits**

The duration of benefits varies; some retirees and spouses are covered until the individual reaches age 65, others are covered for life. No member hired after July 1, 2008 is eligible for lifetime coverage. We rely upon the data provided by the client to determine who is eligible for post-65 coverage.

### **Medical Coverage**

Prior retirees are on Classic Blue, Healthmate, and Bluechip. More recent and future retirees are on HMCC \$250 deductible until Age 65, and then Plan 65 with Part D waiver 80/20 drug coverage.

### **Retiree Contribution Toward Medical Coverage**

Prior retirees on Classic Blue pay any plan cost in excess of the cost of the same level of coverage under HMCC and a cost share. Existing and future retirees' cost shares include a percentage of the annual premium and an additional percentage for retirees who have the lifetime health benefit based on the following:

- Teachers retired prior to 6/30/2005 pay no premium cost share but pay 3% of premium for extended benefits.
- Teachers retired between 7/1/2005 and 6/30/2006 pay 5% premium cost share and 5% for extended benefits.
- Teachers retired between 7/12/2006 and 6/30/2007 pay 7% premium cost share and 5% for extended benefits.
- Teachers retired between 7/1/2007 and 6/30/2008 pay 10% premium cost share and 5% for extended benefits.

- Teachers retired between 7/1/2008 and 6/30/2009 pay 10.5% premium cost share and 5% for extended benefits.
- Teachers retired between 7/1/2009 and 6/30/2010 pay 12% premium cost share and 5% for extended benefits.
- Teachers retired between 7/1/2010 and 6/30/2012 pay 15% premium cost share and 5% for extended benefits.
- Teachers retired after 7/1/2012 pay 20% premium cost share and 5% for extended benefits.

As of the 2006-2007 school year, the lifetime health benefit was no longer available to new hires. Teachers who currently have the benefit may opt out at any time. Those who opt out are reimbursed all monies paid plus any interest that has accrued.

#### **Life Insurance**

\$50,000 coverage until age 65. No contributions are required.

#### **Part B Reimbursement**

Any teacher who retired before July 1, 2011 shall be reimbursed for his/her Part B Medicare premium upon becoming Medicare eligible.

---

## City of Newport - Administrators

---

### **Retirement Eligibility**

As of July 1, 2012, retirement eligibility dates are as follows:

(i) Certified Administrators – not vested with 10 years as of July 1, 2005, and vested with 10 years as of September 30, 2009 and 65 years old.

(ii) Non-certified Administrators – non-vested employees, retirement age is Social Security normal retirement age. Vested, minimum retirement age is 59 years old.

### **Vesting Eligibility**

As of July 1, 2012, 5 years of contributing service to the defined benefit pension plan.

### **Disability Eligibility**

5 years of service

### **Duration of Benefits**

The duration of benefits varies; some retirees and spouses are covered until the individual reaches age 65, others are covered for lifetime. No member hired after July 1, 2012 is eligible for coverage after age 65. We rely upon the data provided by the client to determine who is eligible for post-65 coverage.

### **Medical Coverage**

Prior retirees are on Classic Blue, and Healthmate and include the same provisions of the teachers' contracts. More recent and future retirees are on HMCC \$250 deductible until Age 65.

### **Retiree Contribution Toward Medical Coverage**

Prior retirees on Classic Blue pay any plan cost in excess of the cost of the same level of coverage under HMCC and a cost share. Existing and future retirees' cost shares include a percentage of the annual premium and an additional percentage for retirees who have the lifetime health benefit (prior to 6/30/2012) based on the following:

- Administrators retired prior to 7/1/2004 have no premium cost share but paid 3% for extended benefits.
- Administrators retired between 7/1/2004 and 6/30/2008 pay 10% of premium and 3% for extended benefits.
- Administrators retired between 7/1/2008 and 6/30/2010 pay 12.5% of premium and 3% for extended benefits.
- Administrators retired between 7/1/2010 and 6/30/2012 pay 20% of premium and 3% for extended benefits.

- Administratoes retired after 7/1/2012 pay 20% of premium (extended benefits no longer offered to new retirees).

The cost share at the time of retirement remains in place until age 65.

**Life Insurance**

\$50,000 coverage until age 65. No contributions are required.

**Part B Reimbursement**

Not Applicable.

---

## City of Newport – Newport Schools Support Staff

---

### **Retirement Eligibility**

#### Current valuation:

- Members with less than five years of contributory service as of June 30, 2012 and members hired on or after that date are eligible for retirement on or after their Social Security normal retirement age.
- Members who had at least five years of contributory service as of June 30, 2012 will be eligible for retirement at an individually determined age. This age is the result of interpolating between the member's prior Retirement Date, described in Section (e) below, and the retirement age applicable to members hired after June 30, 2012 in (a) above. The interpolation is based on service as of June 30, 2012 divided by projected service at the member's prior Retirement Date. The minimum retirement age is 59.
- Members with 10 or more years of contributory service on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute to MERS until that date.
- A member who is within five years of reaching their retirement eligibility date, described in this section, and has 20 or more

### **Vesting Eligibility**

As of July 1, 2012, 5 years of contributing service to the defined benefit pension plan.

### **Disability Eligibility**

5 years of service

### **Duration of Benefits**

The duration of benefit varies; some retirees and spouses are covered until the individual reaches age 65, others are covered for lifetime. No member hired after July 1, 2012 is eligible for coverage after age 65. We rely upon the data provided by the client to determine who is eligible for post-65 coverage.

### **Medical Coverage**

Prior retirees are on Healthmate. More recent and future retirees are on HMCC \$250 deductible until Age 65, and then, if eligible, Plan 65 with Part D with option 1 or option 11 drug coverage.

### **Retiree Contribution Toward Medical Coverage**

Existing and future retirees' cost shares include a percentage of the annual premium for the lifetime health benefit and/or a percentage of the annual premium for benefits to age 65 based on the following dates and percentages:



- Staff retired prior to 6/30/2006 pay no premium cost share but pay 3% of premium for extended benefits.
- Staff retired between 7/1/2006 and 6/30/2007 pay 3% premium cost share and 3% for extended benefits.
- Staff retired between 7/1/2007 and 6/30/2008 pay 5% premium cost share and 4% for extended benefits.
- Staff retired between 7/1/2008 and 6/30/2009 pay 7% premium cost share and 5% for extended benefits.
- Staff retired between 7/1/2009 and 6/30/2012 pay 10% premium cost share and 5% for extended benefits.
- Staff retired between 7/1/2012 and 6/30/2013 pay 12% premium cost share and 5% for extended benefits.
- Staff retired after 7/1/2013 pay 15% premium cost share and 5% for extended benefits.
- Para-educators who retire pay 50% of premium as cost share.

Members who currently have the lifetime benefit may opt out at any time. Those who opt out are reimbursed all monies paid plus any interest that has accrued.

### **Life Insurance**

\$50,000 coverage until age 65. No contributions are required.

### **Part B Reimbursement**

Retirees are reimbursed for their Part B Medicare premium.

---

## City of Newport - General Employees

---

### Retirement Eligibility

#### Current valuation:

- a. Members with less than five years of contributory service as of June 30, 2012 and members hired on or after that date are eligible for retirement on or after their Social Security normal retirement age.
- b. Members who had at least five years of contributory service as of June 30, 2012 will be eligible for retirement at an individually determined age. This age is the result of interpolating between the member's prior Retirement Date, described in Section (e) below, and the retirement age applicable to members hired after June 30, 2012 in (a) above. The interpolation is based on service as of June 30, 2012 divided by projected service at the member's prior Retirement Date. The minimum retirement age is 59.
- c. Members with 10 or more years of contributory service on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute to MERS until that date.
- d. A member who is within five years of reaching their retirement eligibility date, described in this section, and has 20 or more years of service, may elect to retire at any time.

### Vesting Eligibility

As of July 1, 2012 5 years of contributing service.

### Disability Eligibility

5 years of service

### Duration of Benefits

- For Municipal AFSCME and NEA retirees who retire after June 1, 2009, both the retiree and spouse are covered until the individual reaches age 65.
- For all others, retiree and spouse are covered for lifetime.

### Medical Coverage

Retirees may select from Classic Blue, Healthmate Traditional, Bluechip, or Plan 65.

### Retiree Contribution Toward Medical Coverage

- Municipal AFSCME retirees who retire after July 1, 2009 will pay 3% of the premium as a cost share. Those retired on or before June 1, 2009 do not incur a cost.
- NEA Municipal employees who retire after June 1, 2009 will pay 3% of the premium as a cost share. Those retired on or before June 1, 2009 do not incur a cost.

- Non-union Municipal Supervisory employees who retire between July 1, 2004 and July 31, 2010 pay 10% of the premium as a cost share. Those retired on or after August 1, 2010 pay 15% of the premium as a cost share, those retired before July 1, 2004 do not incur a cost.

## Section 8: Participant Data

The following tables show the current retired participants, and the potential future retirees who are currently active.

<b>Table 5</b>			
<b>Current Retired Population</b>			
<b>Age Group</b>	<b>Females</b>	<b>Males</b>	<b>Total</b>
<50	1	12	13
50-54	2	8	10
55-59	15	38	53
60-64	48	71	119
65-69	80	87	167
70-74	34	52	86
75-79	20	20	40
80-84	8	11	19
85+	6	13	19
<b>Total</b>	<b>214</b>	<b>312</b>	<b>526</b>

<b>Table 6</b>			
<b>Active Population</b>			
<b>Age Group</b>	<b>Females</b>	<b>Males</b>	<b>Total</b>
<25	2	7	9
25-29	18	27	45
30-34	21	34	55
35-39	24	37	61
40-44	41	47	88
45-49	41	63	104
50-54	47	52	99
55-59	49	47	96
60-64	36	25	61
65+	9	8	17
<b>Total</b>	<b>288</b>	<b>349</b>	<b>637</b>

## Section 9: Health Care Reform

### *Summary of Selected Provisions and Their Effects*

#### **I. Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) effective 1/1/2018**

The “Cadillac” tax is a 40% excise tax paid by the coverage provider (employer and/or insurer) on the value of health plan costs in excess of certain thresholds. The following table shows the thresholds as of 2018:

Retiree Type	Single	Family
Non Medicare Eligible Retiree	\$11,850	\$30,950
Medicare Eligible Retiree	\$10,200	\$27,500

Since the thresholds will be indexed at CPI-U, which is lower than the medical inflation rates affecting the cost of the plans, most of the plans which are below the threshold today will exceed the thresholds in the next decade. There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Combining early retiree and Medicare eligible retiree costs is allowed and can keep plans under the thresholds for a longer period of time.

Hay Group has developed a model to estimate the tax liability that may be imposed under the ACA’s Cadillac Tax Provisions. The model’s calculations are based on our understanding of the Cadillac Tax statutory requirements under Internal Revenue Code section 4980I, as no regulations have yet been issued.

Hay Group’s model projects the expected Cadillac Tax liability that would occur over the next 30 years, from 2015 through 2044. The modeling consists of three steps: projection of the City’s future medical claims, projection of future Cadillac Tax thresholds, and calculation of the City’s associated Cadillac Tax liability. Each of these steps was performed for each year of the 30-year period. The Cadillac Tax thresholds vary by age (less than 55, 55 to 65, and above 65) and coverage tier (single and family). The calculations in each of the three modeling steps were therefore performed separately for each age group and coverage tier. The ACA, however, allows for the tax to apply on a non-age-based, “blended” basis for each coverage tier. Therefore, the calculations were performed for each coverage tier on both an age-based and blended basis.

Based on the assumptions used for this valuation, premiums applicable to retirees are projected to remain below the taxable threshold until at least 2035. Although the amount of tax initially assessed on the health insurance premiums is not expected to be significant, it will increase over time. We are modeling the impact of the tax by increasing the medical cost trend rates for plan years 2035 and later by 0.20%.

## II. Implementation of the new requirements:

The City's health plans appear to be already in compliance with the following provisions of the Affordable Care Act. As a result, no additional consideration was given in the valuation of these liabilities for this valuation.

1. Removal of the lifetime maximum.
2. Extension of dependent coverage up to age 26 for covered employee's children.
3. ***Elimination of annual dollar limits (effective 2014)/restrictions on annual dollar limits:***  
This provision has no impact - there are no changes required for the plans.
4. ***Medicare Advantage Plans – Effective 1/1/2011:*** This provision has no impact - City does not subsidize coverage through Medicare Advantage plans. Retirees changing coverage to an MA plan pay the full amount charged by the vendor and as such are considered lapsing for the purpose of this valuation.
5. ***Medicare Part D Subsidy – Shrinking Medicare Prescription Drug “Donut Hole”*** Starting 1/1/2011. This provision has no impact - Plans sponsored by the City have no Donut Hole.
6. Elimination of limits on pre-existing conditions (effective 6 months after enactment for covered children under age 19; 2014 for all other enrollees).
7. Elimination of cost-sharing for preventive services.
8. Elimination of emergency services preauthorization and OB-GYN preauthorization.
9. Providing enrollees with a choice of primary care physician.
10. Elimination of waiting periods exceeding 90 days (effective 2014).
11. Tying annual cost-sharing limits to HSA limits (effective 2014).

## Section 10: Analysis of Gains and Loss

The expected cost of health care benefits in the future is developed from the following:

- The number of participants expected to receive benefits
- Today's measure of the cost of providing the benefits
- How rapidly the cost is expected to escalate in the future

Table 7 below provides a reconciliation of the gains and loss from the last valuation as of July 1, 2014 to the current valuation as of July 1, 2015 for the OPEB liabilities.

Table 7 Reconciliation of Gains and Loss	
Liability as of 7/1/2014	\$118,221,315
Expected liability as of 7/1/2015	\$121,681,240
Change due to new census data	\$2,109,700
Change due to new claim costs and trends	(\$2,610,688)
Change due to new Police Retirement rates	\$482,901
Change due to removal of liability for Library Personnel	(\$1,760,947)
Final liability as of 7/1/2015	\$119,419,305

## Appendix: Breakdown of the Annual OPEB Cost and Accrued Liability by Departments

### City of Newport Post Retirement Valuation

As of 7/1/2015	Beach	Equipment Operations	Fire	General Government	Harbor	Planning	Police	Public Safety	Public Works	Recreation	School	Water	All
<b>Number of Employees</b>													
Current Retirees	1	2	95	28	0	5	87	12	16	2	250	28	526
Future Retirees	<u>2</u>	<u>1</u>	<u>95</u>	<u>41</u>	<u>2</u>	<u>6</u>	<u>78</u>	<u>16</u>	<u>37</u>	<u>2</u>	<u>310</u>	<u>47</u>	<u>637</u>
Total	3	3	190	69	2	11	165	28	53	4	560	75	1,163
<b>Actuarial Accrued Liability</b>													
Current Retirees	139,553	266,386	14,033,610	2,903,313	0	553,667	15,140,963	1,392,133	2,095,897	374,666	41,595,208	3,719,303	82,214,698
Future Retirees	<u>19,857</u>	<u>23,998</u>	<u>8,401,711</u>	<u>1,170,924</u>	<u>58,627</u>	<u>136,513</u>	<u>7,446,746</u>	<u>934,038</u>	<u>1,148,689</u>	<u>110,458</u>	<u>16,320,052</u>	<u>1,432,993</u>	<u>37,204,606</u>
Total	159,410	290,384	22,435,321	4,074,237	58,627	690,180	22,587,709	2,326,171	3,244,586	485,124	57,915,260	5,152,296	119,419,305
<b>Normal Cost</b>													
Current Retirees	0	0	0	0	0	0	0	0	0	0	0	0	0
Future Retirees	<u>2,814</u>	<u>404</u>	<u>516,055</u>	<u>84,792</u>	<u>5,082</u>	<u>10,110</u>	<u>443,936</u>	<u>57,664</u>	<u>84,180</u>	<u>4,129</u>	<u>870,920</u>	<u>107,257</u>	<u>2,187,343</u>
Total	2,814	404	516,055	84,792	5,082	10,110	443,936	57,664	84,180	4,129	870,920	107,257	2,187,343
<b>Annual OPEB Cost</b>													
Normal Cost	2,814	404	516,055	84,792	5,082	10,110	443,936	57,664	84,180	4,129	870,920	107,257	2,187,343
Amortization Cost	7,750	14,118	1,090,768	198,083	2,850	33,555	1,098,176	113,095	157,746	23,586	2,815,743	250,496	5,805,966
Interest on Unfunded ARC	513	934	72,192	13,110	189	2,221	72,682	7,485	10,440	1,561	186,359	16,579	384,265
Adjustment to the ARC	<u>-480</u>	<u>-874</u>	<u>-67,512</u>	<u>-12,260</u>	<u>-176</u>	<u>-2,077</u>	<u>-67,970</u>	<u>-7,000</u>	<u>-9,764</u>	<u>-1,460</u>	<u>-174,277</u>	<u>-15,504</u>	<u>-359,353</u>
Total	10,598	14,583	1,611,503	283,724	7,945	43,809	1,546,825	171,244	242,603	27,816	3,698,744	358,828	8,018,221