



Town of West Warwick

Interim GASB 45 Actuarial Valuation

Fiscal Year Ending June 30, 2015

Prepared by:

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December 4, 2015

**John Cimino
Town of West Warwick
1170 Main Street
West Warwick, RI 02893**

This report summarizes the interim GASB actuarial valuation for the Town of West Warwick's 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.

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

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Summary of Results

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

	<i>As of July 1, 2013</i>		<i>As of July 1, 2014</i>	
Actuarial Accrued Liability	\$	57,953,063	\$	56,153,938
Actuarial Value of Assets	\$	0	\$	0
Unfunded Actuarial Accrued Liability	\$	57,953,063	\$	56,153,938
Funded Ratio		0.0%		0.0%

	<i>FY 2013/14</i>		<i>FY 2014/15</i>	
Annual Required Contribution	\$	4,803,612	\$	4,712,809
Annual OPEB Cost	\$	4,933,828	\$	4,840,622
Annual Employer Contribution	\$	3,467,681	\$	4,019,034

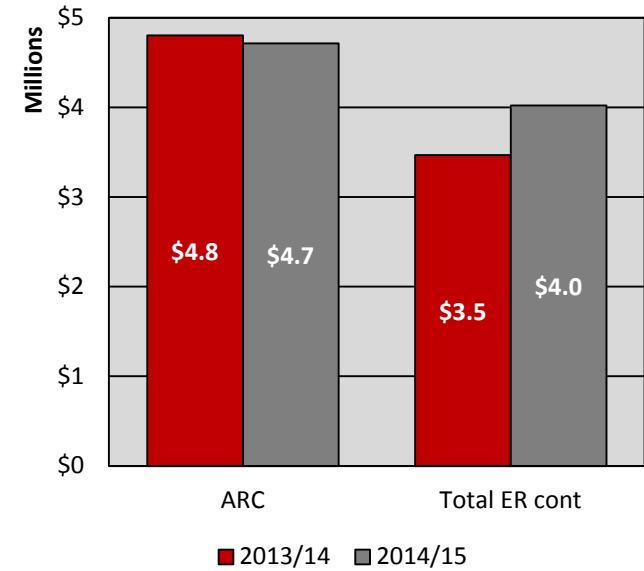
	<i>As of June 30, 2014</i>		<i>As of June 30, 2015</i>	
Net OPEB Obligation	\$	15,549,134	\$	16,370,722

Development of Annual Required Contribution (ARC)

Discount Rate		7.5%	7.5%
Required Supplementary Information		FY 2013/14	FY 2014/15
Actuarial Accrued Liability as of beginning of year	\$	57,953,063	\$ 56,153,938
Actuarial Value of Assets as of beginning of year		0	0
Unfunded Actuarial Accrued Liability (UAAL)	\$	57,953,063	\$ 56,153,938
Covered payroll ¹		35,610,976	\$ 36,323,196
UAAL as a % of covered payroll		162.7%	154.6%

Annual Required Contribution		FY 2013/14	FY 2014/15
Normal cost as of beginning of year	\$	988,749	\$ 962,014
Reduction for active contributions to OPEB Trust		(65,043)	(66,344)
Net normal cost as of beginning of year	\$	923,706	\$ 895,670
Amortization of the UAAL		3,544,770	3,488,338
Total normal cost and amortization payment	\$	4,468,476	\$ 4,384,008
Interest to end of year		335,136	328,801
Total Annual Required Contribution (ARC)	\$	4,803,612	\$ 4,712,809

Cash vs. Accrual Accounting



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.

¹ 2014/15 covered payroll is based on the 2013/14 covered payroll (\$35,610,976) increased by the payroll growth assumption (2.0%).

Development of Annual OPEB Cost and Net OPEB Obligation

Annual employer contribution for pay-go costs are estimated for 2013/14 and 2014/15.

Net OPEB Obligation		FY 2013/14		FY 2014/15
ARC as of end of year	\$	4,803,612	\$	4,712,809
Interest on Net OPEB Obligation (NOO) to end of year		1,056,224		1,166,185
NOO amortization adjustment to the ARC		(926,008)		(1,038,372)
Annual OPEB cost	\$	4,933,828	\$	4,840,622
Annual employer contribution for pay-go cost		(3,467,681)		(3,779,772)
Annual employer contribution for pre-funding		0		(239,262)
Change in NOO	\$	1,466,147	\$	821,588
NOO as of beginning of year		14,082,987		15,549,134
NOO as of end of year	\$	15,549,134	\$	16,370,722

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.

Summary of GASB 45 Financial Results

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

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	\$ 56,153,938	\$ -	\$ 56,153,938	0.0%	\$ 36,323,196	154.6%
July 1, 2013	\$ 57,953,063	\$ -	\$ 57,953,063	0.0%	\$ 35,610,976	162.7%
July 1, 2012	\$ 107,329,661	\$ -	\$ 107,329,661	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	\$ 4,019,034	\$ 4,712,809	85.3%
June 30, 2014	\$ 3,467,681	\$ 4,803,612	72.2%
June 30, 2013	\$ 5,303,716	\$ 7,552,618	70.2%

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	\$ 4,840,622	83.0%	\$ 16,370,722
June 30, 2014	\$ 4,933,828	70.3%	\$ 15,549,134
June 30, 2013	\$ 7,523,306	70.5%	\$ 14,082,987

Asset Information

Reconciliation of Market Value of Assets	FY 2014/15	
Market value of Trust assets as of July 1	\$	0
Revenues		
Employer contributions for pre-funding	\$	239,262
Employer contributions for pay-go cost ²		0
Investment income		1
Total	\$	239,263
Expenditures		
Benefit payments ²	\$	0
Investment expenses and professional fees		0
Total	\$	0
Market value of Trust assets as of June 30	\$	0
Adjustment for employer contributions receivable	\$	0
Actuarial value of assets as of June 30	\$	239,263

² Pay-go cost is being paid from the General Fund instead of the OPEB Trust.

GASB Results by Groups

Below is the summary of the GASB results for fiscal year ending June 30, 2015 based on the Entry Age Normal Level % of Salary cost method with a discount rate of 7.5%.

<i>Union Groups</i>	<i>Unfunded Actuarial Accrued Liability (UAAL) As of July 1, 2014</i>	<i>Annual Required Contribution (ARC) For 2014/15</i>	<i>Net OPEB Obligation (NOO) As of June 30, 2015</i>
Department Head	\$ 321,890	\$ 21,496	\$ (27,616)
Firefighters	\$ 17,494,353	\$ 1,410,650	\$ 6,541,848
Municipal	\$ 9,064,702	\$ 684,212	\$ 1,543,765
Police	\$ 16,462,002	\$ 1,383,547	\$ 6,250,597
Sewer	\$ 1,637,940	\$ 144,726	\$ 334,075
School Certified	\$ 8,836,839	\$ 843,028	\$ 1,427,526
School Non-Certified	\$ 2,336,212	\$ 225,150	\$ 300,527
Total	\$ 56,153,938	\$ 4,712,809	\$ 16,370,722

Summary of Key Actuarial Assumptions

For a more complete summary of assumptions, refer to the GASB 45 Financial Report for fiscal year ending June 30, 2014.

Discount Rate	7.5% fully-funded
Inflation Rate	3.0% per year
Payroll Growth	2.0% per year increasing to 3.5% beginning on 2017 for valuation purposes 2.5% per year for amortization purposes
Cost Method	Entry Age Normal Level % of Salary
Amortization	Level % of pay over thirty years based on a closed group (29 years remaining as of June 30, 2015)
Health Care Trend Rates	Annual trend rates are as shown below:

FYE	Medical / Rx	Dental
2016	8.5%	5.00%
2017	8.0%	4.75%
2018	7.5%	4.50%
2019	7.0%	4.25%
2020	6.5%	4.00%
2021	6.0%	4.00%
2022	5.5%	4.00%
2023+	5.0%	4.00%

Actuary's Notes

Adjustments have been made to the Actuarial Accrued Liability, Normal Cost, and expected Benefit Payments for actual premium increases from 2014/15 to 2015/16, which caused a decrease in the Town's liabilities.

Premium rates Comparison of monthly medical premium rates are as shown below:

Group Suffix	Plan Name	Eff. 7/1/2014		Eff. 7/1/2015	
		Single	Family	Single	Family
School					
Classified 0001 class 0002	HM \$0 Ded \$10 OV/\$25 ER, \$5/15/30/30 Rx	\$ 669.71	\$ 1,656.89	\$ 683.10	\$ 1,690.03
Certified 0003 class 0002	HM \$0 Ded \$10 OV/\$25 ER, \$5/15/30/30 Rx	\$ 669.71	\$ 1,656.89	\$ 683.10	\$ 1,690.03
Certified 0002 class 0004	HM \$0 Ded \$5 OV/\$25 ER, \$5/10/10 Rx	\$ 694.32	\$ 1,717.81	\$ 708.21	\$ 1,725.17
Classified 0004 class 0006	HM \$0 Ded \$15 OV/\$100 ER, \$7/25/40/40 Rx	\$ 648.03	\$ 1,603.29	\$ 660.99	\$ 1,635.36
Certified 0002 class 0005	HM \$0 Ded \$15 OV/\$100 ER, \$7/25/40/40 Rx	\$ 648.03	\$ 1,603.29	\$ 660.99	\$ 1,635.36
Classified 0004 class 0006	BlueChip Flex	\$ 642.90	\$ 1,590.63	\$ 655.76	\$ 1,622.44
Classified 0003 class 0001	\$2000 HSA	\$ 426.65	\$ 1,055.57	\$ 435.18	\$ 1,076.68
Certified 0001 class 0001	\$2000 HSA	\$ 426.65	\$ 1,055.57	\$ 435.18	\$ 1,076.68
Certified 0002 class 0001	\$2000 HSA	\$ 426.65	\$ 1,055.57	\$ 435.18	\$ 1,076.68
Certified 0001 class 0003	HM \$500 Ded \$15 OV/\$100 ER, \$7/25/40/40 Rx	\$ 602.31	\$ 1,490.70	\$ 614.36	\$ 1,520.51
Classified 0003 class 0002	HM \$500 Ded \$15/25 OV	\$ 596.29	\$ 1,475.79	\$ 608.22	\$ 1,505.31
Certified 0002 class 0002	HM \$500 Ded \$15/25 OV	\$ 596.29	\$ 1,475.79	\$ 608.22	\$ 1,505.31
Town					
All groups	HM No Deductible	\$ 669.71	\$ 1,685.93	\$ 680.49	\$ 1,713.07
All groups	HM \$500	\$ 595.35	\$ 1,502.35	\$ 604.94	\$ 1,526.54
All groups	HDHP \$2000	\$ 410.45	\$ 1,090.73	\$ 417.06	\$ 1,108.29

Upon Medicare eligibility, the Town provides Plan 65 and the monthly premiums effective on July 1, 2014 and 2015 are \$163.33 and \$169.31 respectively.