



Town of Portsmouth

Interim GASB 45 Actuarial Valuation

Fiscal Year Ending June 30, 2014

Prepared by:
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January 7, 2015

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This report summarizes the interim GASB actuarial valuation for the Town of Portsmouth 2013/14 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 valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We 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.

The actuarial assumptions were 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 computations have been made in accordance with generally accepted actuarial principles and practice.

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

Summary of Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 projected from the prior fiscal year valuation.

	<i>As of July 1, 2012</i>		<i>As of July 1, 2013</i>	
Actuarial Accrued Liability	\$	13,090,922	\$	12,827,546
Actuarial Value of Assets	\$	(402,179)	\$	(457,516)
Unfunded Actuarial Accrued Liability	\$	12,688,743	\$	12,370,030
Funded Ratio		3.1%		3.6%

	<i>FY 2012/13</i>		<i>FY 2013/14</i>	
Annual Required Contribution	\$	1,297,531	\$	1,254,874
Annual OPEB Cost	\$	1,256,912	\$	1,207,670
Annual Employer Contribution	\$	800,908 ¹	\$	768,926

	<i>As of June 30, 2013</i>		<i>As of June 30, 2014</i>	
Net OPEB Obligation	\$	3,268,590	\$	3,707,334

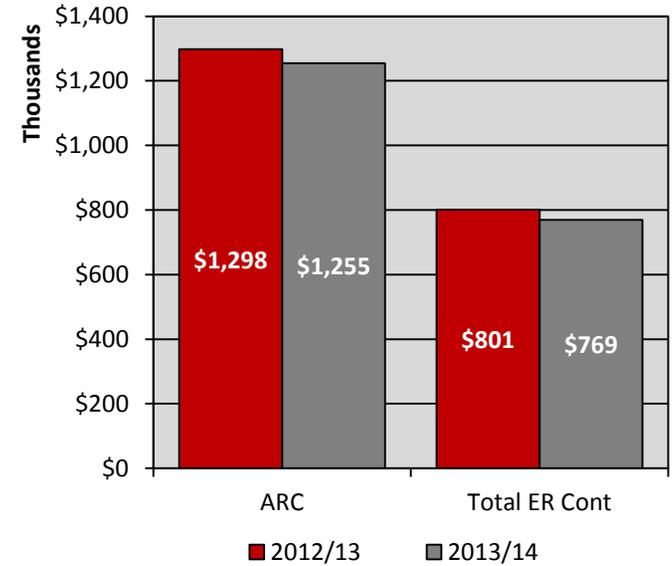
¹ FY 2012/13 total annual employer contribution for pay-go costs is the sum of (a) \$724,032 in actual premium payments for retirees and (b) \$76,876 for the implicit portion of pay-go costs.

Development of Annual Required Contribution (ARC)

Required Supplementary Information	FY 2012/13	FY 2013/14
Actuarial Accrued Liability as of beginning of year	\$ 13,090,922	\$ 12,827,546
Actuarial Value of Assets as of beginning of year	(402,179)	(457,516)
Unfunded Actuarial Accrued Liability (UAAL)	\$ 12,688,743	\$ 12,370,030
Funded Ratio	3.1%	3.6%
Covered payroll ²	\$ 5,407,210	\$ 5,569,426
UAAL as a % of covered payroll	234.7%	222.1%

Annual Required Contribution	FY 2012/13	FY 2013/14
Normal cost as of beginning of year	\$ 484,538	\$ 464,344
Reduction for employee contributions	(57,522)	(57,618)
Net normal cost	\$ 427,016	406,726
Amortization of the UAAL	805,910	785,667
Total normal cost and amortization payment	\$ 1,232,926	\$ 1,192,393
Interest to end of year	64,605	62,481
Total Annual Required Contribution (ARC)	\$ 1,297,531	\$ 1,254,874

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.

² 2013/14 covered payroll is based on 2012/13 covered payroll increased by the payroll growth assumption (3.0%).

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation	FY 2012/13		FY 2013/14	
ARC as of end of year	\$	1,297,531	\$	1,254,874
Interest on Net OPEB Obligation (NOO) to end of year		147,380		171,274
NOO amortization adjustment to the ARC		(187,999)		(218,478)
Annual OPEB cost	\$	1,256,912	\$	1,207,670
Annual employer contribution for pay-go cost		(800,908) ³		(737,586) ⁴
Annual employer contribution for pre-funding		0		(31,340)
Change in NOO	\$	456,004	\$	438,744
NOO as of beginning of year		2,812,586		3,268,590
NOO as of end of year	\$	3,268,590	\$	3,707,334

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.

³ FY 2012/13 annual employer contribution for pay-go cost is the sum of (a) \$724,032 in actual premium payments for retirees and (b) \$76,876 for the implicit portion of pay-go costs.

⁴ FY 2013/14 annual employer contribution for pay-go cost is the sum of (a) \$653,791 in actual premium payments for retirees and (b) \$83,795 for the implicit portion of pay-go costs.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 compared to prior fiscal years 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, 2013	\$ 12,827,546	\$ 457,516	\$ 12,370,030	3.6%	\$ 5,569,426	222.1%
July 1, 2012	\$ 13,090,922	\$ 402,179	\$ 12,688,743	3.1%	\$ 5,407,210	234.7%
July 1, 2011	\$ 12,527,599	\$ 203,392	\$ 12,324,207	1.6%	\$ 6,574,650	187.5%

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, 2014	\$ 768,926	\$ 1,254,874	61.3%
June 30, 2013	\$ 800,908	\$ 1,297,531	61.7%
June 30, 2012	\$ 953,389	\$ 1,248,914	76.3%

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, 2014	\$ 1,207,670	63.7%	\$ 3,707,334
June 30, 2013	\$ 1,256,912	63.7%	\$ 3,268,590
June 30, 2012	\$ 1,212,030	78.7%	\$ 2,812,586

Asset Information

<i>Summary of Assets</i>	<i>Market Value as of June 30, 2013</i>		<i>Market Value as of June 30, 2014</i>	
General investments				
Cash / cash equivalents	\$	409,435	\$	486,809
Fixed income		0		0
Equities		0		0
Receivables				
Employee contributions		48,081		57,618
Other		0		0
Net assets	\$	457,516	\$	544,427

<i>Reconciliation of Assets</i>	<i>FY 2012/13</i>		<i>FY 2013/14</i>	
Income				
Contributions received				
Employer	\$	724,032	\$	685,131
Employee		57,522		57,618
Investment earnings				
Interest income		815		953
Unrealized appreciation / depreciation				
Total income	\$	782,369	\$	743,702
Disbursements				
Benefit payments to retirees	\$	(724,032)	\$	(653,791)
Administrative expenses		(3,000)		(3,000)
Total disbursements	\$	(727,032)	\$	(656,791)
Net income	\$	55,337	\$	86,911
Net asset at beginning of year		402,179		457,516
Net asset at end of year	\$	457,516	\$	544,427

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, 2013.

Discount Rate	5.24% partially funded
Inflation Rate	3.0% per year
Payroll Growth	3.0% per year (used for covered payroll projection only)
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar amount over thirty years based on an open group
Health Care Trend Rates	Annual trend rates by benefit are as shown below:

FYE	Medical / Rx	Dental	Vision
2015	8.50%	4.75%	3.00%
2016	8.00%	4.50%	3.00%
2017	7.50%	4.25%	3.00%
2018	7.00%	4.00%	3.00%
2019	6.50%	4.00%	3.00%
2020	6.00%	4.00%	3.00%
2021	5.50%	4.00%	3.00%
2022+	5.00%	4.00%	3.00%

Actuary's Notes

Adjustments have been made to the Actuarial Accrued Liability, Normal Cost, and expected Benefit Payments for actual premium increases from 2013/14 to 2014/15 and the following substantive plan provision changes which caused a decrease in the Town's liabilities:

1. Police officers used to receive free retiree health coverage (medical, dental, and vision) until Medicare eligibility. In this year's valuation, officers hired prior to July 1, 2013 who retire on/after July 1, 2013 are required to contribute 10% of the cost of coverage for all benefits. Officers hired after July 1, 2013 are required to contribute 20% of the cost of coverage for all benefits.
2. PMEA employees used to receive free retiree health coverage (medical, dental, and vision) until age 67 or Medicare eligibility, whichever is earlier. In this year's valuation, PMEA employees hired prior to July 1, 2013 who retire on/after July 1, 2013 are required to contribute 10% of the cost of coverage for all benefits. Employees hired after July 1, 2013 are required to contribute 20% of the cost of coverage for all benefits.
3. Non-Union group employees used to receive free retiree health coverage (medical, dental, and vision) until Medicare eligibility. In this year's valuation, the Town will contribute 85% of the medical cost for these employees until Medicare eligibility. Dental and vision coverage remains free.

Dental Premium Rates

Comparison of monthly dental premium rates are as shown below.

Group	Eff. 7/1/2013		Eff. 7/1/2014	
	Single	Family	Single	Family
Police, Fire, and Public Works	\$ 30.26	\$ 81.51	\$ 30.13	\$ 81.16
PMEA and NUG	\$ 30.26	\$ 82.34	\$ 30.13	\$ 81.99

Actuary's Notes – Continued**Medical Premium Rates**

Comparison of monthly medical premium rates are as shown below.

Effective July 1, 2013

Health Plan	Group	Single	Family
Healthmate 0001	PMEA and NUG	\$ 511.89	\$ 1,322.12
Healthmate 0007	Retired Fire (post-4/08, pre-7/10)	\$ 512.05	\$ 1,322.49
Healthmate 0002, 0004, and 0009	Police Public Works Retired Fire (pre-4/08)	\$ 530.98	\$ 1,371.41
Healthmate 0005 HDHP	Fire (post-7/10 retirement)	\$ 459.50	\$ 995.43
Classic 0001	Retired Fire	\$ 606.42	\$ 1,558.47
Classic 0007	PMEA and NUG	\$ 613.96	\$ 1,578.03
Classic 0009	Retired Police	\$ 705.59	\$ 1,862.90

Effective July 1, 2014

Health Plan	Group	Single	Family
Healthmate 0001	PMEA and NUG DPW (active and retired post-7/14) Police (active and retired post-4/14)	\$ 510.21	\$ 1,317.73
Healthmate 0007	Retired Fire (post-4/08, pre-7/10)	\$ 538.92	\$ 1,391.93
Healthmate 0002	Retired Police (pre-4/14) Retired Public Works (pre-7/14) Retired Fire (pre-4/08)	\$ 559.02	\$ 1,443.82
Healthmate 0003	Retired PMEA (pre-7/13)	\$ 365.64	\$ 944.40
Healthmate 0005 HDHP	Fire (active and retired post-7/10)	\$ 480.09	\$ 1,058.85
Classic 0001	Retired Fire (pre-4/08)	\$ 638.44	\$ 1,640.77
Classic 0007	Retired NUG (pre-7/14)	\$ 646.38	\$ 1,661.35
Classic 0009	Retired Police	\$ 742.85	\$ 1,961.27