



John C. Klimm  
Town Administrator

# TOWN OF PORTSMOUTH

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May 8, 2012

Town of Portsmouth Pension Participants & Beneficiaries

Re: "Critical Status" Notice of the Town of Portsmouth Employee Pension Plan

Dear Pension Recipients:

The Rhode Island legislature passed a pension reform law in 2011 which mandated that every municipality with a locally administered pension plan perform an initial actuarial experience study and a valuation study. The Town of Portsmouth has complied with the law and submitted to the pension study commission both studies which were performed by Milliman, the Town's longstanding pension actuary. These studies are available on the Town's website, under the Finance Department, Related Links (on right), "Pension Info."

The law also requires that our actuary determine whether our plan is in "critical status" which means that the plan's funding percentage is less than 60% as of the beginning of the plan year. Our actuary has certified that our locally administered pension plan is in critical status as indicated in the May 1, 2012 letter posted on the Town's website. The pension plan was funded at 61.5% under the most recently completed valuation dated July 1, 2011. For the following plan year (July 1, 2012) we will be implementing the updated assumptions from the experience study and our plan funded status will drop to 51.7%. The funded status of our pension plan is considered to be below the 60% threshold based upon the actuary's certification letter.

I should point out that the Town has consistently made its annual required contribution to the pension plan as determined by our actuary. Due primarily to the poor financial market results in Fiscal Year 2008-09 and the lowering of our projected investment rate of return from 8% to 6.75%, the Town's funding status has dropped below 60%. However, I am working with our actuary, pension investment adviser, and Town Council to improve the plan's funded status.

Under the law passed by the legislature and as a result of the critical status determination, the Town must submit a reasonable alternative funding improvement plan to the Pension Study Commission within 180 days of sending this notice.

If you have any questions or require further information please do not hesitate to contact the Finance/Personnel Office.

Sincerely,

John C. Klimm  
Town Administrator



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Windsor, CT 06095  
USA

May 1, 2012

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*PERSONAL & CONFIDENTIAL*

Mr. David P. Faucher  
Finance / Personnel Director  
Town of Portsmouth  
2200 East Main Street  
Portsmouth, RI 02871

Re: Retirement Plan for Employees of the Town of Portsmouth  
Certification of "Critical Status"

Dear Dave:

As you are aware, recent Rhode Island legislation (specifically, 2011-H6319) discusses the requirement for actuarial certification of the funded status for locally administered plans, such as the Retirement Plan for Employees of the Town of Portsmouth. The plan's actuary must certify whether or not the plan is in "critical status".

Per Section 45-65-4 (3) of the above legislation:

"Critical status" means that, as determined by its actuary, as of the beginning of the plan year, a plan's funded percentage for such plan year is less than sixty percent (60%).

As of July 1, 2011, the most recent actuarial valuation, the funded status was 61.5%. If the July 1, 2011 valuation were redone using the assumptions recommended in the experience study submitted by Milliman on March 30, 2012 with a 6.75% investment return assumption, the funded status would be 51.7%; with a 7.25% investment return assumption, the funded status would be 55.3%. Under either set of recommended assumptions the funded status of the plan would have been below the 60% threshold and therefore the plan would have been considered to be in "critical status" as of July 1, 2011. Please note that as of July 1, 2012, the funded status of the plan may be more or less than 60%, depending on emerging plan experience.

I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Rebecca A. Sielman, FSA  
Consulting Actuary