



***Town of South Kingstown***  
*Interim GASB 45 Actuarial Valuation*  
*Fiscal Year Ending June 30, 2015*

***Prepared by:***  
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**October 20, 2015**

**Patricia Sunderland  
Town of South Kingstown  
180 High Street  
Wakefield, RI 02879**

This report summarizes the interim GASB actuarial valuation for the Town of South Kingstown 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

## 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>	
<b>Actuarial Accrued Liability</b>	\$	18,517,664	\$	18,090,149
<b>Actuarial Value of Assets</b>	\$	(3,811,845)	\$	(5,314,336)
<b>Unfunded Actuarial Accrued Liability</b>	\$	14,705,819	\$	12,775,813
<b>Funded Ratio</b>		20.6%		29.4%

	<i>FY 2013/14</i>		<i>FY 2014/15</i>	
<b>Annual Required Contribution</b>	\$	1,722,851	\$	1,665,055
<b>Annual OPEB Cost</b>	\$	1,713,640	\$	1,652,561
<b>Annual Employer Contribution</b>	\$	2,948,054	\$	4,859,217

	<i>As of June 30, 2014</i>		<i>As of June 30, 2015</i>	
<b>Net OPEB Obligation</b>	\$	(2,657,342)	\$	(5,863,998)

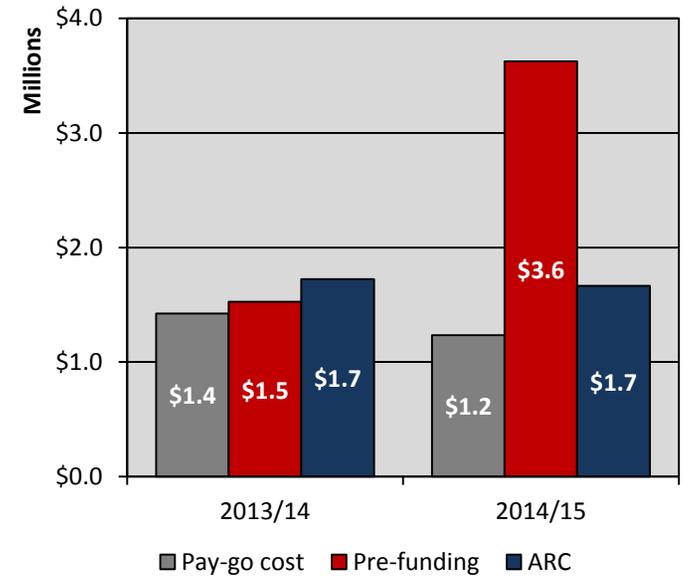
### Development of Annual Required Contribution (ARC)

<b>Discount Rate</b>		<b>7.5%</b>	<b>7.5%</b>
<b>Required Supplementary Information</b>		<b>FY 2013/14</b>	<b>FY 2014/15</b>
Actuarial Accrued Liability as of beginning of year	\$	18,517,664	\$ 18,090,149
Actuarial Value of Assets as of beginning of year		(3,811,845)	(5,314,336)
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$</b>	<b>14,705,819</b>	<b>\$ 12,775,813</b>
Funded Ratio		20.6%	29.4%
Covered payroll <sup>1</sup>	\$	42,546,253	\$ 43,929,006
UAAL as a % of covered payroll		34.6%	29.1%

<b>Annual Required Contribution</b>		<b>FY 2013/14</b>	<b>FY 2014/15</b>
Normal cost as of beginning of year	\$	665,220	\$ 713,425
Amortization of the UAAL		937,432	835,463
Total normal cost and amortization payment	\$	1,602,652	\$ 1,548,888
Interest to end of year		120,199	116,167
<b>Total Annual Required Contribution (ARC)</b>	<b>\$</b>	<b>1,722,851</b>	<b>\$ 1,665,055</b>

Amortization period		24 years	23 years
Salary scale used for amortization purposes		3.25%	3.25%

### 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.

<sup>1</sup> 2014/15 covered payroll is based on 2013/14 covered payroll increased by the payroll growth assumption (3.25%).

## Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation	FY 2013/14	FY 2014/15
ARC as of end of year	\$ 1,722,851	\$ 1,665,055
Interest on Net OPEB Obligation (NOO) to end of year	(106,720)	(199,301)
NOO amortization adjustment to the ARC	97,509	186,807
Annual OPEB cost	\$ 1,713,640	\$ 1,652,561
Annual employer contribution for pay-go cost	(1,423,054)	(1,234,217)
Annual employer contribution for pre-funding <sup>2</sup>	(1,525,000)	(3,625,000)
Change in NOO	\$ (1,234,414)	\$ (3,206,656)
NOO as of beginning of year	(1,422,928)	(2,657,342)
<b>NOO as of end of year</b>	<b>\$ (2,657,342)</b>	<b>\$ (5,863,998)</b>
Amortization period	24 years	23 years
Salary scale used for amortization purposes	3.25%	3.25%

Breakdown of Actual Pay-go Costs	FY 2013/14	FY 2014/15
Medical paid claims and administrative expenses	\$ 1,358,410	\$ 1,189,775
Dental paid claims and administrative expenses	62,236	52,794
Life insurance premiums paid	89,937	91,262
Retiree contributions	(87,529)	(99,614)
<b>Total pay-go costs</b>	<b>\$ 1,423,054</b>	<b>\$ 1,234,217</b>

**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.

<sup>2</sup> FY 2013/14 annual employer contribution for pre-funding includes \$525,000 accrued employer contributions allocated to FY 2013/14 fiscal year but deposited after the end of the fiscal year (in October 2014). The same amount is excluded from FY 2014/15 pre-funding contribution.

## 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 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	\$ 18,090,149	\$ 5,314,336	\$ 12,775,813	29.4%	\$ 43,929,006	29.1%
July 1, 2013	\$ 18,517,664	\$ 3,811,845	\$ 14,705,819	20.6%	\$ 42,546,253	34.6%
July 1, 2012	\$ 19,260,000	\$ 1,650,000	\$ 17,610,000	8.6%	\$ 43,016,000	40.9%

### 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	\$ 4,859,217	\$ 1,665,055	291.8%
June 30, 2014	\$ 2,948,054	\$ 1,722,851	171.1%
June 30, 2013	\$ 2,896,704	\$ 1,878,000	154.2%

### 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	\$ 1,652,561	294.0%	\$ (5,863,998)
June 30, 2014	\$ 1,713,640	172.0%	\$ (2,657,342)
June 30, 2013	\$ 1,871,604	154.8%	\$ (1,422,928)

**Asset Summary**

Summary of Assets	Market Value as of July 1, 2014	Market Value as of July 1, 2015
Cash / money market	\$ 216,518	\$ 1,587,740
Fixed income	589,465	1,757,870
Equities	1,647,769	2,409,376
Mutual funds	2,860,584	3,985,114
Total market value of assets	\$ 5,314,336	\$ 9,740,100
Less: Accounts Payable, Accrued Liabilities	0	(25,577)
Net market value of assets	\$ 5,314,336	\$ 9,714,523

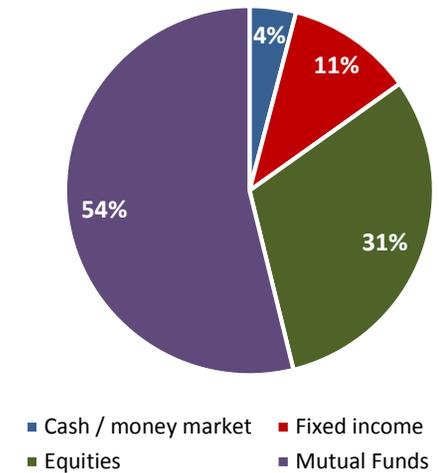
Reconciliation of Market Value of Assets	FY 2013/14	FY 2014/15
Market value of assets as of July 1	\$ 3,811,845	\$ 5,314,336

Revenues		
Member contributions	\$ 0	\$ 0
Employer contributions	1,000,000 <sup>3</sup>	4,150,000
Interest / dividends less accrued income	121,004	242,166
Realized / unrealized gains	415,041	59,234
Total revenues	\$ 1,536,045	\$ 4,451,400

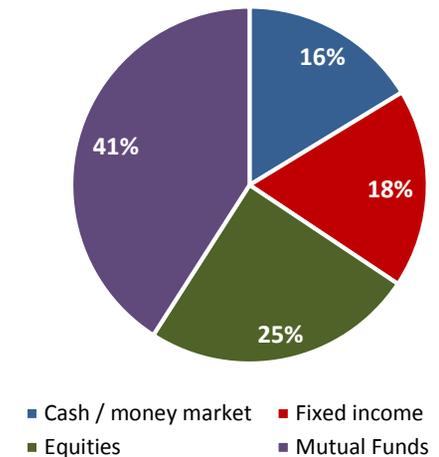
Expenditures		
Benefit payments <sup>4</sup>	\$ 0	\$ 0
Investment expenses and professional fees	(33,554)	(51,213)
Total expenditures	\$ (33,554)	\$ (51,213)

Market value of assets as of June 30	\$ 5,314,336	\$ 9,714,523
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**Asset Breakdown as of 7/1/2014**



**Asset Breakdown as of 7/1/2015**



<sup>3</sup> Excludes \$525,000 accrued contributions allocated to FY 2013/14 but paid after the end of the fiscal year (in October 2014).

<sup>4</sup> Retirees pay-go costs are being paid from operating budget instead of the OPEB Trust.

### 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.

<b>Discount Rate</b>	7.50%
<b>Inflation Rate</b>	3.00% per year
<b>Payroll Growth</b>	3.25% per year (for amortization purposes only)
<b>Cost Method</b>	Projected Unit Credit with linear proration to decrement
<b>Asset Method</b>	Market value of assets
<b>Amortization</b>	Level % of pay over thirty years beginning in FY 2009 based on a closed group. The remaining amortization period as of fiscal year ending June 30, 2015 is 23 years.
<b>Health Care Trend Rates</b>	Annual trend rates are as shown below:

<b>FYE</b>	<b>Medical / Rx</b>	<b>Dental</b>
2016	8.5%	4.0%
2017	8.0%	4.0%
2018	7.5%	4.0%
2019	7.0%	4.0%
2020	6.5%	4.0%
2021	6.0%	4.0%
2022	5.5%	4.0%
2023+	5.0%	4.0%

## Actuary's Notes

There are changes to the substantive plan provisions since the last full valuation, which was for the fiscal year ending June 30, 2014:

1. Employees are eligible for retiree health benefits once they meet the retirement eligibility requirements of Rhode Island Employees Retirement System (RI ERS) or Rhode Island Municipal Employees Retirement (RI MERS). The eligibility requirements under these two retirement systems have changed as noted below:
  - a. For RI ERS members, effective on July 1, 2015, employees are now eligible to retire upon attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with at least 33 years of service. These are additional eligibility requirements, which means that if employees are eligible to retire under the current eligibility requirements, they may do so. This change does not affect the Town's liabilities since the earliest retirement eligibility date for RI ERS members are not impacted by these new eligibility requirements.
  - b. For RI MERS members, effective on July 1, 2015, police officers and firefighters are eligible to retire with full benefit upon attainment of age 50 with 25 years of service or any age with 27 years of service. These are additional eligibility requirements, which means that if employees are eligible to retire under the current eligibility requirements, they may do so. This change increases the Town's liabilities slightly because some RI MERS members can now retire earlier than under the old provisions.
2. For Town NEA and Non-Union employees hired prior to July 1, 2006, the Town's subsidy and subsidy duration have changed as shown in the table below. These changes increased the Town's liabilities for these two groups.

Service at Retirement	Subsidy Amounts		Subsidy Duration	
	New	Old	New	Old
30	\$ 5,500	\$ 5,000	4 years	3 years
25	\$ 4,500	\$ 4,000	3 years	3 years
20	\$ 2,500	\$ 2,000	3 years	3 years

3. Active employees' contribution requirements have been updated for NEA and Non-Union employees effective July 1, 2015 as shown in the table below. This change had no effect on the Town's liabilities for GASB valuation purposes.

Steps	Old Contribution %	FYE	New Contribution %	
			NEA	Non-Union
1 – 3	15.0%	2016	18.5%	20.0%
4 – 6	17.0%	2017 – 2019	19.5%	20.0%
7 – 8	18.0%	2020+	20.0%	20.0%
9 – 10	20.0%			

**Actuary's Notes (Continued)**

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 and also

**Premium rates**

Comparison of monthly premium rates are as shown below.

Employer	Division / Plan	Employee Groups	Eff. 7/1/2014		Eff. 7/1/2015	
			Single	Family	Single	Family
Town	2506-0006 Classic*	Council 94	N/A	\$ 1,876.75	N/A	\$ 1,933.05
Town	2506-0006 HM	Council 94	\$ 567.50	\$ 1,343.56	\$ 584.53	\$ 1,383.87
Town	2506-0005 Classic*	IBPO	\$ 790.93	\$ 1,882.63	\$ 814.66	\$ 1,939.11
Town	2506-0005 HM	IBPO	\$ 577.87	\$ 1,368.69	\$ 595.21	\$ 1,409.75
Town	2506-0003 HM	IBPO	\$ 663.37	\$ 1,437.18	\$ 683.27	\$ 1,480.30
Town	2506-0002 HM	NEA	\$ 570.43	\$ 1,350.32	\$ 587.54	\$ 1,390.83
Town	2506-0001 HM	Non-Union	\$ 567.50	\$ 1,343.56	\$ 584.53	\$ 1,383.87
Town	2506-0004 HM	EMS	\$ 732.30	\$ 1,512.10	\$ 754.27	\$ 1,557.46
School	161-0002 Classic	NEA / Admin	\$ 565.42	\$ 1,340.11	\$ 593.69	\$ 1,407.12
School	161-0002 HM	NEA / Admin	\$ 544.63	\$ 1,288.75	\$ 571.86	\$ 1,353.19
School	161-0003 Classic	Clerks and Aides	\$ 564.32	\$ 1,339.23	\$ 592.54	\$ 1,406.19
School	161-0003 HM	Clerks and Aides	\$ 544.63	\$ 1,288.75	\$ 571.86	\$ 1,353.19
School	161-0001 HM	Council 94	\$ 544.06	\$ 1,287.32	\$ 571.26	\$ 1,351.69

\* Only available to a closed group of retirees currently enrolled in these plans.

Monthly dental premiums are as shown below.

Employer	Employee Groups	Eff. 7/1/2014		Eff. 7/1/2015	
		Single	Family	Single	Family
Town	All	\$ 26.25	\$ 79.07	\$ 30.20	\$ 83.02
School	All	\$ 29.65	\$ 90.29	\$ 30.24	\$ 92.10

**GASB Results by Fund**

Below is the summary of the GASB results for fiscal year ending June 30, 2015 based on the Projected Unit Credit cost method with a discount rate of 7.5%.

<i>Fund</i>	<i>Actuarial Accrued Liability (AAL) As of July 1, 2014</i>	<i>Actuarial Value of Assets (AVA)<sup>5</sup> As of July 1, 2014</i>	<i>Unfunded AAL As of July 1, 2014</i>	<i>Funded Ratio</i>	<i>Annual Required Contribution (ARC) For 2014/15</i>	<i>Net OPEB Obligation (NOO)<sup>5</sup> As of June 30, 2015</i>
101 – General	\$ 9,435,918	\$ 2,771,986	\$ 6,663,932	29.4%	\$ 820,440	\$ (2,298,909)
210 – Water	\$ 47,697	\$ 14,012	\$ 33,685	29.4%	\$ 4,776	\$ (6,639)
215 – Wastewater	\$ 973,713	\$ 286,047	\$ 687,666	29.4%	\$ 67,421	\$ (251,856)
225 – Transfer Station	\$ 4,703	\$ 1,382	\$ 3,321	29.4%	\$ 444	\$ (1,017)
310 – PDOB	\$ 8,477	\$ 2,490	\$ 5,987	29.4%	\$ 895	\$ (912)
340 – Guild	\$ 36,653	\$ 10,768	\$ 25,885	29.4%	\$ 3,946	\$ (4,393)
345 – Elderly Service	\$ 26,368	\$ 7,746	\$ 18,622	29.4%	\$ 3,042	\$ (3,808)
School	\$ 7,556,620	\$ 2,219,905	\$ 5,336,715	29.4%	\$ 764,091	\$ (3,296,464)
<b>Total</b>	<b>\$ 18,090,149</b>	<b>\$ 5,314,336</b>	<b>\$ 12,775,813</b>	<b>29.4%</b>	<b>\$ 1,665,055</b>	<b>\$ (5,863,998)</b>

<sup>5</sup> Actuarial Value of Assets and pre-funding contributions have been distributed among the different Funds based on each Fund's proportion of Actuarial Accrued Liability (AAL) to the total so that each Fund has the same funded ratio.

**GASB Results by Union**

Below is the summary of the GASB results for fiscal year ending June 30, 2015 based on the Projected Unit Credit cost method with a discount rate of 7.5%.

<b>Union</b>	<b>Actuarial Accrued Liability (AAL) As of July 1, 2014</b>	<b>Actuarial Value of Assets (AVA)<sup>6</sup> As of July 1, 2014</b>	<b>Unfunded AAL As of July 1, 2014</b>	<b>Funded Ratio</b>	<b>Annual Required Contribution (ARC) For 2014/15</b>	<b>Net OPEB Obligation (NOO)<sup>6</sup> As of June 30, 2015</b>
School Admin/Non-Union	\$ 547,830	\$ 160,935	\$ 386,895	29.4%	\$ 59,799	\$ (234,433)
School Council 94	\$ 10,780	\$ 3,167	\$ 7,613	29.4%	\$ 855	\$ (7,823)
School Clerk & Aides	\$ 87,843	\$ 25,806	\$ 62,037	29.4%	\$ 9,639	\$ (30,645)
School NEA	\$ 6,910,166	\$ 2,029,997	\$ 4,880,169	29.4%	\$ 693,800	\$ (3,023,563)
Town Council 94	\$ 3,191,141	\$ 937,460	\$ 2,253,681	29.4%	\$ 237,593	\$ (874,239)
Town EMS	\$ 371,722	\$ 109,201	\$ 262,521	29.4%	\$ 56,391	\$ (2,387)
Town IBPO	\$ 6,288,605	\$ 1,847,401	\$ 4,441,204	29.4%	\$ 541,073	\$ (1,527,344)
Town NEA	\$ 360,610	\$ 105,936	\$ 254,674	29.4%	\$ 35,113	\$ (92,893)
Town Non-Union	\$ 321,452	\$ 94,433	\$ 227,019	29.4%	\$ 30,793	\$ (70,671)
<b>Total</b>	<b>\$ 18,090,149</b>	<b>\$ 5,314,336</b>	<b>\$ 12,775,813</b>	<b>29.4%</b>	<b>\$ 1,665,055</b>	<b>\$ (5,863,998)</b>

<sup>6</sup> Actuarial Value of Assets have been distributed among the different Unions based on each Union's proportion of Actuarial Accrued Liability (AAL) to the total so that each Union has the same funded ratio.