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February 11, 2019

EMAIL

Mr. Brian Silvia
Treasurer
City of Warwick
3275 Post Road
Warwick, RI 02886

Dear Mr. Silvia:

This report was prepared to provide management with the disclosures for the City of Warwick (the Employer) for GASB #75 for the fiscal year ended June 30, 2018. This report contains results for the "CITY" only. Results for the "SCHOOL" will be provided in a separate report.

Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended June 30, 2018.

In conducting the valuation, we relied on information supplied to us by the City of Warwick. This information included participant data, the terms of the written and unwritten plan, premium rates and other policies and practices of plan. We relied on this information as accurate, and applied estimates as necessary.

GASB #75 requires results be presented on your financial statements based on actual rates as of your year-end (reflective of published municipal bond indices; the S&P Municipal Bond 20-year High Grade Rate Index as of June 30, 2018 is 2.98%. The Main valuation has been performed based on a 2.98% discount rate, with sensitivity results at both 1.98% and 3.98%. Since there is no OPEB Trust, the Index will apply.

————— SERVING CLIENTS SINCE 1960 —————

To the best of our knowledge and belief, this valuation was conducted in accordance with generally accepted actuarial principles and practices and in accordance with our understanding of GASB #75 and the implementation guidelines published by the Government Accounting Standards Board. The employer may modify the presentation of these disclosures as needed. I am an Enrolled Actuary who satisfies the Qualifications Standards for Actuaries of the American Academy of Actuaries that became effective January 1, 2008.

Very truly yours,

Andrea L. Abolafia, FSA, EA, MAAA
Senior Actuary

CITY OF WARWICK

"CITY PORTION"

**RETIREE MEDICAL ACTUARIAL
VALUATION**

**REPORT ON COMPLIANCE WITH
GOVERNMENT ACCOUNTING STANDARDS BOARD
STATEMENT #75
ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYER
FOR POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

PREPARED: February 2019

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

Changes in Net OPEB Liability FYE 2018

Discount Rate (Proj.) **2.98%** FYE 6/30/2018
Investment Return Rate (Proj.) **N/A; Index will apply**

	Total OPEB <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net OPEB <u>Liability</u>
Balances at 7/1/2017	356,880,279	0	356,880,279
Change	(4,497,231)	0	(4,497,231)
Balances at 6/30/2018	352,383,048	0	352,383,048

TOTAL GASB #75 Expense for FYE 2018

A) GASB #75 Regular Expense

Service Cost	10,631,235
Interest Cost	10,463,940
Experience (Gain)/Loss Amort	(1,763,712)
Investment Loss Amort	0
 GASB #75 Annual OPEB Cost <u>Regular</u> Expense	 19,331,463

B) Prior Period Adjustment at 7/1/2017 (to Update to GASB #75)

Net OPEB Liability 7/1/2017	356,880,279
 (Less) OPEB Obligation as of 6/30/2017 - GASB #45	 (141,203,277)
 Prior Period Adjustment at 7/1/2017	 215,677,002

C) TOTAL GASB #75 Expense for FYE 2018 235,008,465

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

Sensitivity - Discount Rate

	1% Decrease <u>1.98%</u>	Discount Rate <u>2.98%</u>	1% Increase <u>3.98%</u>
Net OPEB Liability 6/30/2018	382,709,935	352,383,048	322,056,160
Regular Expense	21,110,000	19,331,463	17,610,000
Prior Period Adjustment	246,910,000	215,677,002	185,350,000
TOTAL GASB #75 Expense for FYE 2018	268,020,000	235,008,465	202,960,000

Sensitivity - Health Care Trend Rate

	1% Decrease <u>(7.0% decreasing to 4.0%)</u>	Healthcare Trend Rates <u>(8.0% decreasing to 5.0%)</u>	1% Increase <u>(9.0% decreasing to 6.0%)</u>
Net OPEB Liability 6/30/2018	306,180,959	352,383,048	406,389,475
Regular Expense	17,700,000	19,331,463	21,310,000
Prior Period Adjustment	169,470,000	215,677,002	269,680,000
TOTAL Projected Expense for FYE 2018	187,170,000	235,008,465	290,990,000

NOTES

Have used a 2.98% discount rate, with sensitivity at 1.98% and 3.98%.

The S&P 20 AA Municipal Bond Index (an appropriate index for GASB #75 purposes) was 2.98% on 6/30/2018, the Measurement Date.

Due to the small OPEB Trust level vs. Liabilities, the plan is not projected to have a Plan Fiduciary Net position in excess of benefit payments for any year, so the 2.98% Municipal Bond Rate will apply.

Net OPEB Liability is the GASB #75 term now used for Unfunded Accrued Liability.

Membership Counts (at 6/30/2018)

	<u>Active</u>	<u>Retired</u>	<u>Total</u>
Total	711	938	1649

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City of Warwick recognized OPEB expense of \$19,331,463. At June 30, 2018, the City of Warwick reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected And actual experience	\$ 0	\$ (12,345,985)
Changes of assumptions	0	0
Net difference between projected and Actual earnings of OPEB plan Investments	0	0
Total	<u>\$ 0</u>	<u>\$ (12,345,985)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	(\$1,763,712)
2020	(\$1,763,712)
2021	(\$1,763,712)
2022	(\$1,763,712)
2023	(\$1,763,712)
Annually Thereafter (2 years)	(\$1,763,712)

CITY OF WARWICK
Required Supplementary Information
Schedule of Changes In the Net OPEB Liability and Related Ratios
FYE 6/30/2018
Last 10 Fiscal Years

	<u>2018</u>	
Total OPEB liability		
Service cost	\$ 10,631,235	
Interest	10,463,940	
Changes of benefit terms	-	
Difference between expected and actual experience	(14,109,697)	
Changes in assumptions	-	
Benefit payments	(11,482,709)	
Net change in total OPEB liability	(4,497,231)	
Total OPEB liability - beginning	356,880,279	
Total OPEB liability - ending (a)	<u><u>\$ 352,383,048</u></u>	
 Plan Fiduciary net position		
Contributions - employer	11,482,709	
Net investment income	-	
Benefit payments	(11,482,709)	
Administrative expense	-	
Net change in plan fiduciary net position	-	
Plan fiduciary net position - beginning	-	
Plan fiduciary net position - ending (b)	<u><u>\$ -</u></u>	
 District's net OPEB liability - ending (a) - (b)	<u><u>\$ 352,383,048</u></u>	
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	
 Covered-employee payroll	\$ 49,203,459	
 District's net OPEB liability as a percentage of covered - employee payroll	716.18%	

Notes to Schedule:

Benefit changes - None

Implied Subsidy of approximately \$2,280,000 is included in Benefit Payments/Contributions.

CITY OF WARWICK
Required Supplementary Information
Schedule of Contributions and Assumptions
FYE 6/30/2018
Last 10 Fiscal Years

	2018	
Actuarial determined contribution [SC + 20 yr amort NOL]	\$ 34,574,848	
Contributions in relating to the actuarially determined contribution	11,482,709	
Contribution Excess/(deficiency)	<u>\$ (23,092,139)</u>	
Covered-employee payroll	\$ 49,203,459	
Contributions as a percentage of covered-employee payroll	23.34%	

Notes to Schedule:

Valuation date:	7/1/2017
Census date:	6/30/2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market
Inflation	3.00%
Healthcare cost trend rates	8% decr to 5% ultimate
Salary increases	3.00%
Investment rate of return	2.98%
Retirement age	General: Later of age 61 or 1 year after attained age Uniformed: Later of age 55 or 1 year after attained age
Mortality	RP 2014 w/MP2016 proj
Participation at Retirement	100%
Other information:	

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

RESULTS AND DISCLOSURES

DEVELOPMENT OF CHANGES IN OPEB LIABILITY, PLAN FIDUCIARY
NET POSITION, AND RELATED RATIOS
(THE LAST FIVE YEARS ILLUSTRATED)

Year	GASB #75			Change in
<u>Ended</u>	<u>Net OPEB</u>	<u>Regular</u>	<u>Contributions</u>	<u>Net OPEB</u>
	<u>Liability</u>	<u>Expense</u>	<u>plus Earnings</u>	<u>Liability</u>
6/30/2013		\$21,871,662	\$7,191,700	\$14,679,962
6/30/2014		\$23,081,875	\$7,307,821	\$15,774,054
6/30/2015		\$24,080,274	\$7,224,889	\$16,855,385
6/30/2016		\$22,953,802	\$8,104,497	\$14,849,305
6/30/2017		\$23,713,917	\$8,004,053	\$15,709,864
6/30/2018	\$352,383,048	\$19,331,463	\$11,482,709	(\$4,497,231)

*Pre-FYE 2018 reflects GASB #45 OPEB Cost, etc., FYE 2018 Contributions
include projected OPEB Trust Earnings (N/A)*

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

RESULTS AND DISCLOSURES

DEVELOPMENT OF CHANGES IN OPEB LIABILITY, PLAN FIDUCIARY
NET POSITION, AND RELATED RATIOS

Actuarial	Fiduciary	Total	Net	Fiduciary		Net OPEB
Valuation	Net	OPEB	OPEB	Net Position	Covered	Liability
<u>Date</u>	<u>Position</u>	<u>Liability</u>	<u>Liability</u>	as a % of	<u>Payroll</u>	as a % of
				Total OPEB		Covered
				<u>Liability</u>		<u>Payroll</u>
7/1/2014	\$0	\$246,036,471	\$246,036,471	0.0%	N/A	N/A
7/1/2014	\$0	\$263,936,479	\$263,936,479	0.0%	N/A	N/A
7/1/2014	\$0	\$281,166,875	\$281,166,875	0.0%	N/A	N/A
7/1/2015	\$0	\$272,613,934	\$272,613,934	0.0%	N/A	N/A
7/1/2016	\$0	\$290,730,265	\$290,730,265	0.0%	N/A	N/A
7/1/2017	\$0	\$356,880,279	\$356,880,279	0.0%	\$49,203,459	725.3%

*Pre-FYE 2018 reflects GASB #45 OPEB Cost, etc., FYE 2018 Contributions
include projected OPEB Trust Earnings (N/A)*

CITY OF WARWICK
Required Supplementary Information
Schedule of Investment Returns
FYE 6/30/2018
Last 10 Fiscal Years

2018

Annual money-weighted rate of return,
net of investment expense

N/A

No OPEB Trust
Index will apply for discount rate purposes

CITY OF WARWICK
Required Supplementary Information
Investment Target Allocation
June 30, 2018

Asset Class

Target Allocation

N/A, no OPEB Trust

CITY OF WARWICK
Required Supplementary Information
Investment Rate of Return Assumption
June 30, 2018

To value the 6/30/2018 Total OPEB Liability under GASB 75
the S&P Municipal Bond 20 year High Grade Bond index rate of 2.98% (6/30/2018) was utilized.

There is no OPEB Trust

CITY OF WARWICK
Required Supplementary Information
Long-Term Expected REAL Rate of Return
June 30, 2018

<u>Asset Class</u>	<u>Long-Term Expected REAL Rate of Return</u>
N/A, no OPEB Trust	

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

RESULTS AND DISCLOSURES
RESULTS BY FUND (2.98%)
FYE 6/30/2018

	<u>General</u>	<u>Uniformed</u>	<u>Total</u>
Total OPEB Liability BOY	109,019,648	247,860,631	356,880,279
BOY assets	0	0	0
Net OPEB Liability BOY	109,019,648	247,860,631	356,880,279
GASB #45 OPEB Oblig (-)	<u>36,299,569</u>	<u>104,903,708</u>	<u>141,203,277</u>
Prior Period Adjustment	72,720,079	142,956,923	215,677,002
GASB #75 Expense	<u>5,768,283</u>	<u>13,563,180</u>	<u>19,331,463</u>
GASB #75 Expense Plus Prior Period Adjustment	<u>78,488,362</u>	<u>156,520,103</u>	<u>235,008,465</u>
Total OPEB Liability EOY	106,444,811	245,938,237	352,383,048
EOY assets	0	0	0
Net OPEB Liability EOY	106,444,811	245,938,237	352,383,048

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

SUMMARY OF PLAN PROVISIONS

The following is a summary of the current major provisions of the retiree medical program.

1. **MEDICAL BENEFITS**

The Plan is a self- insured plan. Current (2017) retiree premium rates provided to us by the City include:

- a) MED Pre-age 65 Individual: Generally \$687 to \$831 per month.
- b) MED Pre-age 65 Family: Generally \$1,681 to \$2,038 per month.
- c) MED Post-age 65: Generally \$183 or \$252 per month, per person.
- d) DENTAL Pre-age 65 Individual: Generally \$28.75 to \$32.50 per month.
- e) DENTAL Pre-age 65 Family: Generally \$93 to \$105.25 per month.

Adjustments to these premium rates to reflect the difference between the active/retiree group (for which the current premium rates were based on) and the retiree-only group, were required, in accordance with ASOP 6. The retiree and the spouse are covered under the program.

2. **MEDICARE PART B PREMIUMS** - Paid by the City for Fire/Police if retired on or after 7/1/2002, generally at \$134/mo.

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

SUMMARY OF PLAN PROVISIONS

3. **ELIGIBILITY:**

a) General:

Date of Hire prior to 7/1/2012: An employee may retire after age 55 with at least 10 years of service.

Date of Hire after 7/1/2012: An employee may retire after age 59 with at least 10 years of service.

b) Uniformed (Police and Fire employees):

Date of Hire prior to 7/1/2012: An employee may retire after completion of at least 20 years of service (no age requirement).

Date of Hire after 7/1/2012: An employee may retire after completion of at least 25 years of service (no age requirement). Fire retirees must reach age 50.

c) Spousal benefit upon retiree's death: Continued

4. **CITY SUBSIDY:**

The City will generally contribute 100% of medical and dental premium equivalent amounts for both individual and dependent (spousal) coverage. However, the City's cost is capped at the Blue Cross Plan 65 rate, thus participants selecting Blue Chip for Medicare will contribute anything over this amount (approximately 32%).

5. **LIFE INSURANCE:**

None.

6. **FUNDING POLICY:**

The employer's funding policy is to contribute the current annual premium (net of employee contributions) for all retired participants (i.e., pay-as-you-go). The City has chosen not to pre-fund retiree medical benefit obligations in a Trust at this time.

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

ACTUARIAL BASIS

ACTUARIAL FUNDING METHOD: Entry Age Normal, level % pay

ACTUARIAL ASSUMPTIONS

1. Valuation Date: 7/1/2017 (6/30/2018 census)
2. Discount Rate: 2.98% per annum*
(1.98% and 3.98% are illustrated for sensitivity)
3. Salary Scale: 3% per annum (for EAN)
4. Mortality: RP-2014 mortality table
MP-2016 projection.
5. Withdrawal:

<u>Age</u>	<u>General</u>	<u>Uniformed</u>
20	.13130	.01500
25	.10120	.01500
30	.08330	.01460
35	.06780	.01220
40	.05960	.00280
45	.05130	.00030
50	.03230	.00030

6. Disability: N/A

*GASB #75 requires results be presented on your financial statements based on actual rates as of your year-end (reflective of published municipal bond indices; the S&P Municipal Bond 20-year High Grade Rate Index as of 6/30/2018 was 2.98%). Since the plan is not pre-funded, the Index will apply.

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

ACTUARIAL BASIS

7. Retirement:

The following table illustrates the retirement rates:

A) General

<u>Retirement</u>	<u>Retirement</u>
<u>Age</u>	<u>Rates</u>
61+	100.0%

B) Uniformed

<u>Retirement</u>	<u>Retirement</u>
<u>Age (Svc)</u>	<u>Rates</u>
55+	100.0%

8. Health Care Cost
Trend Rate:

The following table illustrates the assumed health care trend rate for each future year:

<u>Year</u>	<u>Assumed Increase</u>
1	8.0%
2	7.5%
3	7.0%
4	6.5%
5	6.0%
6	5.5%
7+	5.0%

9. Marital - Actives:

Wife is assumed to be same age as the husband.
70% of males and 50% of females are assumed married.

CITY OF WARWICK
RETIREE HEALTH VALUATION UNDER GASB #75

ACTUARIAL BASIS

- | | |
|-------------------------|--|
| 10. Participation Rate: | 100% of eligible retirees are expected to participate in Medical and Dental Insurance plans. |
| 11. Inflation Rate: | 3% per annum. |

ASSET VALUATION METHOD: Market value.

AMORTIZATION BASIS: For experience gains/losses, over the average expected future working lifetime of the active group and the expected lifetime of the retiree group.