

March 9, 2012

Mr. Ernest M Zmyslinski
Director of Finance
City of Warwick - City Hall
3275 Post Road
Warwick, RI 02886

Re: Warwick Police and Fire Pension Plans - Information Regarding Recommended Assumption and Method Changes

Dear Ernie:

As requested, below is additional information regarding the actuarial assumption and method changes that were incorporated into the actuarial valuation performed as of July 1, 2011.

In determining liabilities and contribution rates for retirement plans, actuaries must make assumptions about the future. These assumptions are continuously reviewed and periodically updated to better estimate the plan's liability and on-going cost. Earlier last year, GRS performed an assumption review for the Employees' Retirement System of Rhode Island (ERSRI), which included a review of the economic and demographic experience of the Rhode Island Municipal Employees' Retirement System (MERS). The study examined the assumptions used for expected investment rate, inflation rate, retirement, mortality, termination, disability, salary increases, payroll growth, and other miscellaneous assumptions. ERSRI has adopted updated assumptions as a result of this analysis. While the City of Warwick Police and Fire plans were not included in this analysis, we believe that the future experience of these plans, with regard termination, disability, mortality, and compensation increases will be similar to those expected in other municipal retirement systems in Rhode Island. Therefore, we believe these updated assumptions are consistent, reasonable, and more accurately portray the retirement system's liability and cost.

The updated assumptions discussed below are the same as those used to determine the liability and annual pension cost disclosed in our actuarial valuation report dated June 2011. The Board will need to approve and adopt these recommended assumptions as part of process of approving the July 1, 2011 actuarial valuations.

Summary of Assumption Changes

GRS's recommended assumption changes for the Warwick Police and Fire Plans include:

1. Decrease the annual investment rate of return (net of expenses) from 8.00% to 7.50%.
2. Change the salary increase assumption from a 5.25% annual increase assumption to a service related assumption that ranges from an 14.25% increase for newly hired members to 4.25% annual increases for members with 10 or more years of service.
3. Decrease the payroll growth assumption from 4.00% to 3.75%. This assumption does not assume any growth in the number of active members.
4. Modify the expected retirement patterns.
5. Modify the post-termination mortality assumption for retirees to more closely reflect anticipated plan experience and to reflect an assumption of continual future improvement in life expectancy.

The recommended decrease to the annual investment rate of return from 8.00% to 7.50% and the improvement to the mortality assumption had the most significant impact on increasing the plan's liability and cost. Less significant changes were made to termination rates, disability rates, and the rate of salary increases.

The recommendation to decrease the investment return assumption was not based on the recent historical experience of the plan. Rather, it was based by comparing the plan's asset allocation with forward-looking investment return assumptions developed by several recognized investment consulting firms. Decreasing the investment return assumption will increase the likelihood that the plan's future investment experience will meet this assumption and decrease the size of the investment losses during years that actual experience is less than assumed.

The mortality assumption is used to calculate the estimate length of time a retiree's benefit will paid in the future. The longer retirees live and receive their benefits, the larger the liability of the plan, thus increasing the contributions necessary to appropriately fund the plan. The experience study we performed for ERSRI indicated that retirees we living longer than currently assumed. Therefore, we needed to select a new mortality table that better match current life expectancy. Second, we needed to establish a new approach to projecting future increases in life expectancy, since setting a static margin to reflect future anticipated increases in life expectancy has been insufficient to keep up with actual improvements in life expectancy. Therefore, we recommend using an updated mortality table with a generational projection feature that will explicitly project continual increases in life expectancy each year in the future. The following table provides the life expectancy for individuals retiring in future years based on the recommended assumption with a generational projection.

Proposed Life Expectancy for an Age 65 Retiree in Years					
Gender	Year of Retirement				
	2010	2015	2020	2025	2030
Male	18.8	19.2	19.6	19.9	20.3
Female	22.1	22.3	22.5	22.7	23.0

Because this assumption has continuous improvement, life expectancies for today's younger active members are expected to be materially longer than those of today's retirees. Therefore, we expect the mortality assumption to remain appropriate for many years into the future and future periodic updates are expected to result in minor changes in the plan's liability and cost.

Cost Impact

The attached table provides a reconciliation of the change in the City's contributions and the increase in the UAAL due to the change in assumptions.

The undersigned is a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render actuarial opinions about this plan. This communication shall not be construed to provide tax advice, legal advice or investment advice.

I am available to answer any questions in connection with the information provided or the results of the 2011 actuarial valuation at a time of your convenience.

Sincerely,



Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

cc: Mr. Ernest M. Zmyslinski

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Impact of Assumption Changes

	Before Assumption Changes	After Assumption Changes	Difference
P&F I			
FY2013 Employer Contribution	\$13,079,930	\$14,275,545	\$1,195,615
UAAL	\$218,713,767	\$242,127,650	\$23,413,883
Police II			
FY2013 Employer Contribution Rate	24.07%	26.59%	2.52%
UAAL	\$11,225,733	\$21,919,185	\$10,693,452
Fire II			
FY2013 Employer Contribution Rate	20.48%	24.67%	4.19%
UAAL	\$3,510,607	\$7,000,937	\$3,490,330