

City of Warwick, Rhode Island Municipal Employees' Retirement Plan

Actuarial Valuation Report
as of July 1, 2022



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DISCUSSION

Discussion

I. Purpose and Summary

This report presents the results of our July 1, 2022 actuarial valuation of the City of Warwick, Rhode Island Municipal Employees' Retirement Plan. The valuation, which was performed at the request of the City of Warwick, determines the City's contribution level for the plan year beginning July 1, 2023.

In accordance with Section 60-442 of the City's Ordinance governing the plan, the results in this valuation are used to determine the contribution requirement for the 2023-2024 year as follows:

Plan Year	Projected City Contribution
2023-2024	\$ 8,525,753

The development of the valuation results is shown in Tables 1 through 6 and is described in more detail on the following pages.

II. Membership Data

The City furnished data for active, terminated, and retired members as of July 1, 2022. Although we did not audit this data, we did review it for reasonableness and consistency with the data collected in the previous valuation (prepared as of July 1, 2021). Table 4 provides a distribution by age and service for active members.

III. Plan Provisions

A summary of the principal plan provisions recognized for purposes of the valuation is provided in Table 8. There was a 2.75% cost-of-living increase as of July 1, 2022. In addition, based on the results of this valuation it has been determined that the cost-of-living increase as of July 1, 2023 will be 0.00%, and the actuarial gain based on the amount being lower than assumed has also been recognized in this valuation.

IV. Assets

All information about the assets held by the trust fund, including the market value, the amount of the City's and members' contributions, benefit payments and the fund's earnings, was obtained from the City for the fiscal year ending June 30, 2022. Table 3 provides information about investment return and a reconciliation of assets at market value.

As shown in Table 3B, the market value of the assets in the trust was \$146,082,306 as of June 30, 2022. The dollar-weighted rate of return on the market value of assets was -14.72% for the 2021-2022 plan year.

The plan uses a 5-year smoothed asset value rather than the market value of assets in determining contribution requirements. This smoothed value of assets is defined as the actuarial value of assets (AVA). This smoothed method used to compute the AVA takes the difference between actual earnings and expected earnings (based on the assumed investment return rate) each year, and recognizes the difference over five years, at 20% per year.



V. Actuarial Methods and Assumptions

The results of the actuarial valuation, including the calculation of the liabilities and contributions, are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

The actuarial methods and assumptions employed in this valuation are described in detail in Table 8 of this report. Primary economic assumptions include a 6.90% investment return and a service related compensation increase assumption. The Entry Age Normal actuarial cost method continues to be used to determine liabilities for funding purposes.

The Plan provides cost-of-living increases contingent on the adequacy of a “bank” determined by fund performance. As the funded status improves, this bank will begin to provide increases. Based on the current formula, it is assumed that the cost-of-living increases formula will produce a 0.75% annual cost-of-living increase over time.

VI. Funding Policy

The City's annual contribution to the plan is actuarially determined and is based upon a funding policy which provides for the payment of the normal cost with interest plus an amount which will amortize the unfunded actuarial accrued liability. Increases or decreases in the actuarial accrued liability attributable to plan changes, changes in assumptions or methods, or experience gains or losses are amortized as a level percentage of pay over a period not to exceed 20 years from the date they are determined. A projection of the employer contribution amounts is provided in Table 6.

Effective with the City's restated Ordinance adopted during 1993, the results of each actuarial valuation are used to project the City's contribution requirement for the following plan year. Accordingly, the 2023-2024 contribution requirement is equal to the 2022 valuation result, projected with 2.75% growth, our assumed payroll growth assumption.

VII. Analysis of Valuation Results

Table 1 provides a comparison of the results from the July 1, 2021 and the July 1, 2022 actuarial valuations.

The funded ratio increased from 76.4% to 78.0%. The funded status measure alone is not appropriate for assessing the need for future contributions. Also, the funded status is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations. While the investment return for the year was less than assumed, the funded ratio did increase based on a combination of the funding policy and liability experience. The actual contribution dollar amount grew more than the expected 2.75% because the active headcount increased by 10%.



The amortization bases established to amortize the unfunded actuarial accrued liability arising from these sources, along with bases established in prior valuations, are presented in Table 2B.

The following exhibit provides the detail by source from the contribution requirement from last year's report to this year's.

	<u>Impact</u>	<u>Value</u>
FY2023 Contribution Requirement		\$8,070,826
Expected Growth at 2.75%	221,948	
Amortization Stagger from 2016 Assumption Changes	0	
Recognized Investment Experience	128,514	
Other Liability Experience	104,464	
Assumption Changes	-	
Total Change	<u> </u>	454,926
FY2024 Contribution Requirement		<u>\$8,525,753</u>

IX. Certification

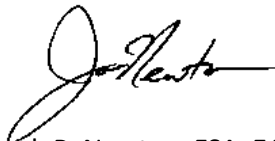
This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

We certify that the information included herein and contained in this Actuarial Valuation Report is accurate and fairly presents the actuarial position of the City of Warwick, Rhode Island Municipal Employees' Retirement Plan as of the valuation date.

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Joseph P. Newton and Paul T. Wood are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

We are available to answer any questions in connection with this valuation of the plan or the information presented in this report.



Joseph P. Newton, FSA, EA, MAAA
Pension Market Leader



Paul T. Wood, ASA, FCA, MAAA
Senior Consultant

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TABLES

TABLE 1

Development of Contribution

A. Membership Data	<i>July 1, 2022</i>	<i>July 1, 2021</i>
1. Active members		
a. Number	349	317
b. Covered payroll	\$ 20,383,145	\$ 18,268,927
c. Average pay	\$ 58,404	\$ 57,631
d. Average attained age	48.2	48.5
e. Average past service	10.8	11.9
2. Retired members and beneficiaries		
a. Number	452	447
b. Average benefit being paid	\$ 36,511	\$ 35,871
3. Terminated members with vested benefits		
a. Number	24	24
b. Average deferred benefit payable at 65*	\$ 22,314	\$ 24,375
4. Number of non vested terminated members with contributions not yet refunded	29	26
B. Liabilities		
1. Actuarial accrued liability		
a. Active members	\$ 57,942,458	\$ 55,475,459
b. Retired members	141,177,076	141,169,502
c. Terminated members	4,393,054	4,684,180
d. Total	\$ 203,512,588	\$ 201,329,141
2. Valuation assets	\$ 158,657,828	\$ 153,732,446
3. Unfunded actuarial accrued liability [1(d) - 2]	\$ 44,854,760	\$ 47,596,695
4. Funded ratio [2 / 1(d)]	78.0%	76.4%
C. Determination of City Contribution for FY+1		
1. Net normal cost		
a. Gross normal cost, with interest	\$ 3,238,992	\$ 2,923,058
b. Expected employee contributions	1,922,894	1,809,791
c. Net normal cost [(a) - (b)]	\$ 1,316,098	\$ 1,113,267
2. Amortization charges	7,209,655	6,957,559
3. City contribution [1(c) + 2]	\$ 8,525,753	\$ 8,070,826

* Does not include 3% pre-retirement cost-of-living increases subsequent to valuation date.



TABLE 2A

Determination of Changes in Unfunded Actuarial Accrued Liability

A. Reconciliation of Unfunded Actuarial Accrued Liability

1. Expected unfunded actuarial accrued liability as of July 1, 2022	\$ 44,080,168
2. Increase (decrease) in unfunded actuarial accrued liability due to actuarial experience	\$ (863,784)
3. Increase (decrease) in unfunded actuarial accrued liability due to investment performance	\$ 1,638,376
4. Increase (decrease) in unfunded actuarial accrued liability due to assumption changes	\$ -
5. Unfunded actuarial accrued liability as of July 1, 2022 [(1) + (2) + (3) + (4)]	\$ 44,854,760

TABLE 2B

Summary of Amortization Bases

B. Summary of Amortization Bases

<i>Date Established</i>	<i>Purpose</i>	<i>Initial Amount</i>	<i>Remaining Balance as of July 1, 2022</i>	<i>2023-2024 Amortization Payment *</i>	<i>Years Remaining as of July 1, 2023</i>
7/14	2014 Fresh Start, Offsetting of Prior Bases	36,573,612	19,280,887	5,428,828	3
7/15	Experience (Gain)/Loss	(326,033)	(171,878)	(48,395)	3
7/16	Experience (Gain)/Loss	744,744	681,775	66,075	13
** 7/16	2016 Assumption Change - FY19 Stagger	1,782,579	1,947,882	171,188	15
** 7/16	2016 Assumption Change - FY20 Stagger	1,782,579	2,115,530	178,102	16
** 7/16	2016 Assumption Change - FY21 Stagger	1,782,579	2,289,948	185,295	17
** 7/16	2016 Assumption Change - FY22 Stagger	1,782,579	2,471,412	192,780	18
** 7/16	2016 Assumption Change - FY23 Stagger	1,782,579	2,660,204	200,565	19
7/17	2017 Experience (Gain)/Loss	2,587,236	2,644,674	232,425	15
7/18	2018 Experience (Gain)/Loss	4,330,455	4,497,264	378,614	16
7/19	2019 Experience (Gain)/Loss	1,127,837	1,186,015	95,969	17
7/20	2020 Experience (Gain)/Loss	765,796	813,015	63,418	18
** 7/20	2020 Assumption Change - FY27 Stagger	3,158,984	3,609,964	-	23
7/21	2021 Experience (Gain)/Loss	50,024	53,476	4,032	19
7/22	2022 Experience (Gain)/Loss	774,592	<u>774,592</u>	<u>60,759</u>	20
Total			\$ 44,854,760	\$ 7,209,655	

* Assuming payment made throughout of the year.

** Assumption change staggers will begin in the fiscal year indicated and be 20 scheduled payments



TABLE 3A

Asset Information

Composition of Fund as of June 30, 2022

	Market Value	Percentage of Total
1. Cash and equivalents	\$ 1,581,103	1.1%
2. Equities, including index funds	103,803,695	71.0%
3. Fixed income investments	40,838,513	28.0%
4. Receivables less payables	<u>(141,005)</u>	<u>-0.1%</u>
5. Total	\$146,082,306	100.0%



TABLE 3B

Asset Information Asset Reconciliation and Expected Returns

	Asset Information Asset Reconciliation and Expected Returns				
	FY 2018	FY 2019*	FY 2020	FY 2021	FY 2022
1. Beginning of year market value	124,934,249	134,055,398	136,686,145	135,668,767	175,551,356
2. Contributions					
a. City	6,194,245	6,728,459	7,458,317	7,390,058	7,814,937
b. Member	1,888,875	1,877,583	1,888,893	1,714,213	1,821,343
c. Other	10,591	-	-	-	-
d. Total	8,093,711	8,606,042	9,347,210	9,104,271	9,636,280
3. Benefits and admin expenses paid	(10,220,125)	(11,314,488)	(12,011,581)	(12,883,964)	(13,547,378)
4. Net return	11,247,563	5,339,193	1,646,993	43,662,282	(25,557,952)
5. End of year market value	134,055,398	136,686,145	135,668,767	175,551,356	146,082,306
6. Net market return	9.08%	4.02%	1.22%	32.64%	-14.72%
7. Expected market value					
a. Beginning of year	124,934,249	134,055,398	136,686,145	135,668,767	175,551,356
b. Net cash flow	(2,126,414)	(2,708,446)	(2,664,371)	(3,779,693)	(3,911,098)
c. Earnings assumption	6.90%	6.90%	6.90%	6.90%	6.90%
d. Expected earnings	8,548,326	9,157,940	9,340,956	9,232,920	11,980,361
e. Excess/(shortfall)	2,699,237	(3,818,747)	(7,693,963)	34,429,362	(37,538,313)

TABLE 3C

Asset Information Development of Actuarial Value of Assets

	Year Ending June 30, 2022																																																								
1. Market value of assets at beginning of year*	\$ 175,551,356																																																								
2. Net new investments																																																									
a. Contributions	\$ 9,636,280																																																								
b. Benefits and admin expenses paid	(13,547,378)																																																								
c. Subtotal	(3,911,098)																																																								
3. Market value of assets at end of year	\$ 146,082,306																																																								
4. Net earnings (3-1-2)	\$ (25,557,952)																																																								
5. Assumed investment return rate	6.90%																																																								
6. Expected return	\$ 11,980,361																																																								
7. Excess return (4-6)	\$ (37,538,313)																																																								
8. Development of amounts to be recognized as of June 30, 2022:																																																									
<table style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Fiscal Year End</th> <th style="text-align: center; border-bottom: 1px solid black;">Remaining Deferrals of Excess (Shortfall) of Investment Income*</th> <th style="text-align: center; border-bottom: 1px solid black;">Offsetting of Gains/(Losses)</th> <th style="text-align: center; border-bottom: 1px solid black;">Net Deferrals Remaining</th> <th style="text-align: center; border-bottom: 1px solid black;">Years Remaining</th> <th style="text-align: center; border-bottom: 1px solid black;">Recognized for this valuation</th> <th style="text-align: center; border-bottom: 1px solid black;">Remaining after this valuation</th> </tr> <tr> <th></th> <th style="text-align: center;">(1)</th> <th style="text-align: center;">(2)</th> <th style="text-align: center;">(3) = (1) + (2)</th> <th style="text-align: center;">(4)</th> <th style="text-align: center;">(5) = (3) / (4)</th> <th style="text-align: center;">(6) = (3) - (5)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: center;">1</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$ 0</td> </tr> <tr> <td>2019</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: center;">2</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2020</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: center;">3</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2021</td> <td style="text-align: right;">21,818,910</td> <td style="text-align: right;">(21,818,910)</td> <td style="text-align: right;">0</td> <td style="text-align: center;">4</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2022</td> <td style="text-align: right; border-bottom: 1px solid black;">(37,538,313)</td> <td style="text-align: right; border-bottom: 1px solid black;">21,818,910</td> <td style="text-align: right; border-bottom: 1px solid black;">(15,719,403)</td> <td style="text-align: center;">5</td> <td style="text-align: right; border-bottom: 1px solid black;">(3,143,881)</td> <td style="text-align: right; border-bottom: 1px solid black;">(12,575,522)</td> </tr> <tr> <td></td> <td style="text-align: right;">\$ (15,719,403)</td> <td style="text-align: right;">\$ 0</td> <td style="text-align: right;">\$(15,719,403)</td> <td></td> <td style="text-align: right;">\$ (3,143,881)</td> <td style="text-align: right;">\$ (12,575,522)</td> </tr> </tbody> </table>	Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income*	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)	2018	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0	2019	0	0	0	2	0	0	2020	0	0	0	3	0	0	2021	21,818,910	(21,818,910)	0	4	0	0	2022	(37,538,313)	21,818,910	(15,719,403)	5	(3,143,881)	(12,575,522)		\$ (15,719,403)	\$ 0	\$(15,719,403)		\$ (3,143,881)	\$ (12,575,522)	
Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income*	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation																																																			
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)																																																			
2018	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0																																																			
2019	0	0	0	2	0	0																																																			
2020	0	0	0	3	0	0																																																			
2021	21,818,910	(21,818,910)	0	4	0	0																																																			
2022	(37,538,313)	21,818,910	(15,719,403)	5	(3,143,881)	(12,575,522)																																																			
	\$ (15,719,403)	\$ 0	\$(15,719,403)		\$ (3,143,881)	\$ (12,575,522)																																																			
9. Actuarial value of assets as of June 30, 2022 (Item 3 - Item 8)	\$ 158,657,828																																																								
10. Ratio of actuarial value to market value	108.6%																																																								

* Market value of assets and the remaining deferrals of shortfall of investment income FY 2019 have been revised based on the restated information.



TABLE 4

Distribution of Active Members and Average Salary by Age and by Years of Service

Attained Age	Years of Credited Service													Total Count & Avg. Comp.
	0 Count & Avg. Comp.	1 Count & Avg. Comp.	2 Count & Avg. Comp.	3 Count & Avg. Comp.	4 Count & Avg. Comp.	5-9 Count & Avg. Comp.	10-14 Count & Avg. Comp.	15-19 Count & Avg. Comp.	20-24 Count & Avg. Comp.	25-29 Count & Avg. Comp.	30-34 Count & Avg. Comp.	35 & Over Count & Avg. Comp.		
Under 25	1	1		1		1								4
	\$ 43,659	\$ 29,160		\$ 50,112		\$ 53,802								\$ 44,183
25-29	3	3	2	2	2	6								18
	\$ 32,526	\$ 49,766	\$ 42,815	\$ 48,792	\$ 52,005	\$ 58,068								\$ 49,028
30-34	1	4	3	1	4	11	1							25
	\$ 22,265	\$ 45,698	\$ 61,032	\$ 10,000	\$ 52,076	\$ 55,826	\$ 54,873							\$ 51,017
35-39	9	2		3	2	11	3	8						38
	\$ 36,387	\$ 42,094		\$ 60,215	\$ 52,579	\$ 50,856	\$ 65,698	\$ 70,694						\$ 53,146
40-44	6	2	3	3	4	10	4	6	3					41
	\$ 33,689	\$ 47,298	\$ 64,661	\$ 50,953	\$ 59,156	\$ 53,107	\$ 59,300	\$ 57,318	\$ 74,264					\$ 54,028
45-49	4	1	1	1	2	7	2	16	9					43
	\$ 45,877	\$ 57,623	\$ 43,835	\$ 48,269	\$ 81,663	\$ 63,474	\$ 74,643	\$ 62,013	\$ 68,848					\$ 62,837
50-54	5	5	3	2	2	16	3	9	15	6	2			68
	\$ 31,747	\$ 53,647	\$ 52,875	\$ 48,103	\$ 49,237	\$ 61,089	\$ 50,390	\$ 60,565	\$ 67,511	\$ 76,768	\$ 61,226			\$ 59,554
55-59	4	2	2	1	3	14	1	19	7	3	1			57
	\$ 31,748	\$ 81,646	\$ 83,770	\$ 71,584	\$ 76,408	\$ 52,786	\$ 75,282	\$ 68,125	\$ 69,385	\$ 95,160	\$ 61,092			\$ 64,905
60-64	1	2		2		13		8	4	2		1		33
	\$ 20,913	\$ 108,618		\$ 79,714		\$ 61,493		\$ 64,911	\$ 59,099	\$ 57,435		\$ 81,816		\$ 65,132
65 & Over		3	1	1	1	5	2	2	4	2		1		22
		\$ 62,721	\$ 68,027	\$ 10,000	\$ 50,164	\$ 50,788	\$ 59,900	\$ 64,422	\$ 68,591	\$ 17,037		\$ 85,822		\$ 55,146
Total	34	25	15	17	20	94	16	68	42	13	3	2		349
	\$ 34,802	\$ 57,383	\$ 60,049	\$ 51,570	\$ 59,764	\$ 56,605	\$ 61,544	\$ 64,548	\$ 67,894	\$ 68,849	\$ 61,181	\$ 83,819		\$ 58,404



TABLE 5

History of Investment Return Rates

<u>Year Ending June 30 of</u> (1)	<u>Market</u> (2)	<u>Actuarial</u> (3)
2007	15.08%	
2008	-4.68%	
2009	-16.43%	
2010	13.61%	
2011	21.71%	
2012	0.46%	
2013	12.07%	
2014	15.71%	9.23%
2015	2.34%	9.23%
2016	-1.40%	6.18%
2017	12.78%	6.51%
2018	9.08%	7.33%
2019*	4.02%	4.65%
2020	1.22%	5.85%
2021	32.64%	10.42%
2022	-14.72%	5.82%
Average Returns:		
Last 5 Years	5.37%	6.80%
Last 10 Years	6.72%	

* The rate of return on the market value of assets FY2019 has been revised based

TABLE 6
Near Term Outlook

Valuation as of July 1,	Unfunded Actuarial Accrued Liability (UAAL)	AVA Funded Ratio	Actuarial Value of Fund Assets (AVA)	For Fiscal Year Ending June 30,	Employer Contribution Rate	Covered Compensation	Employer Contributions	Employee Contributions	Benefit Payments and Refunds	Net External Cash Flow
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2022	\$ 44,855	78.0%	\$ 158,658	2023	41.0%	\$ 19,699	\$ 8,071	\$ 1,871	\$ 13,981	\$ (4,039)
2023	40,535	80.3%	165,224	2024	42.1%	20,241	8,526	1,923	14,110	(3,661)
2024	35,770	82.8%	172,629	2025	41.9%	20,798	8,704	1,976	14,470	(3,790)
2025	30,477	85.5%	180,405	2026	41.6%	21,370	8,888	2,030	14,942	(4,024)
2026	24,600	88.5%	188,469	2027	16.4%	21,957	3,590	2,086	15,319	(9,643)
2027	23,790	88.9%	191,275	2028	16.1%	22,561	3,639	2,143	15,707	(9,925)
2028	22,875	89.5%	193,976	2029	15.9%	23,181	3,690	2,202	16,024	(10,131)

These projections are based on the current funding policy and assumes that all current assumptions are met each year in the future, including a 6.9% annual return on smoothed Amount is shown in thousands.



TABLE 7

Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019*</u>
Ratio of the market value of assets to total payroll	7.2	9.6	7.3	6.7
Ratio of actuarial accrued liability to payroll	10.0	11.0	10.3	9.1
Ratio of actives to retirees and beneficiaries	0.7	0.6	0.7	0.9
Ratio of net cash flows to market value of assets	-2.7%	-2.2%	-2.0%	-2.0%
Duration of the actuarial accrued liability	12.0	12.0	12.2	12.1

*Risk measures on June 30, 2019 have been revised based on the restated information.

TABLE 8

Actuarial Methods and Assumptions

Actuarial Valuations:	Actuarial valuations are prepared July 1 of each year.
Actuarial Cost Method:	<i>Entry Age Normal Actuarial Cost Method:</i> Under this method, the normal cost is the amount calculated as the level percentage of pay necessary to fully fund each active member's prospective benefit from entry age to retirement age. The total actuarial accrued liability, which is redetermined for each individual member as of each valuation date, represents the theoretical accumulation of all prior years' normal costs for the members as if the present plan had always been in effect. The unfunded actuarial accrued liability represents the excess of the total actuarial accrued liability over the valuation assets.
Amortization Policy:	The amortization of the UAAL is determined as a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. New experience losses are amortized over individual periods not to exceed 20 years. New gains are offset against and amortized over the same period as the current largest outstanding loss which in turn decreases contribution rate volatility.
Asset Valuation Method:	The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses.



Actuarial Methods and Assumptions (Continued)

1. *Mortality*

a. Post-retirement mortality rates:

- i. Male employees - PUB(10) Median Table for Healthy General Employee Males, loaded by 115%, projected with Scale Ultimate MP16.
- ii. Female employees - PUB(10) Median Table for Healthy General Employee Females, loaded by 111%, projected with Scale Ultimate MP16.
- iii. Disabled males – PUB(10) Tables for Disabled Retirees for General male employees, loaded by 115%, projected with Scale Ultimate MP16.
- iv. Disabled females – PUB(10) Tables for Disabled Retirees for General female employees, loaded by 111%, projected with Scale Ultimate MP16

b. Active Mortality

- i. Male employees: PUB(10) Tables for Employees by Occupation for males, projected with Scale Ultimate MP16.
- ii. Female employees: PUB(10) Tables for Employees by Occupation for females, projected with Scale Ultimate MP16.

2. *Investment return rate* 6.90% per year, compounded annually, net of investment expenses.

3. *Payroll growth rate* Overall payroll is assumed to grow at 2.75% per year.



Actuarial Methods and Assumptions (Continued)

4. Disability rates

Sample rates per 1,000 active members are shown below. Rates are based on Rhode Island MERS experience for general employees. No recovery is assumed.

Age	Males	Females
25	0.59	0.27
30	0.72	0.33
35	0.98	0.45
40	1.43	0.66
45	2.34	1.08
50	3.97	1.83
55	6.57	3.03
60	9.17	4.23
65	15.02	6.93

Actuarial Methods and Assumptions (Continued)

5. Termination rates

Rates of withdrawal among active members for reasons other than death or disability or retirement are shown below. Termination rates are not applied to members eligible for retirement. Rates are based on experience of Rhode Island MERS general employees.

Service	General Employees, Males & Females	Police & Fire, Males & Females
1	0.175000	0.100000
2	0.118774	0.047300
3	0.101396	0.036903
4	0.086148	0.030821
5	0.072887	0.026506
6	0.061471	0.023158
7	0.051757	0.020424
8	0.043604	0.018111
9	0.036868	0.016108
10	0.031408	0.014342
11	0.027082	0.012761
12	0.023746	0.011332
13	0.021259	0.010026
14	0.019479	0.008826
15	0.018263	0.007714
16	0.017470	0.006679
17	0.016956	0.005711
18	0.016579	0.004802
19	0.016198	0.003944
20	0.015669	0.000000
21	0.014851	0.000000
22	0.013602	0.000000
23	0.011778	0.000000
24	0.009239	0.000000
25	0.005841	0.000000

Actuarial Methods and Assumptions (Continued)

6. Salary increase rates

The sum of (i) a 3.00% wage inflation assumption (composed of a 2.75% price inflation assumption and a 0.25% additional general increase), and (ii) a service-related component as shown below. The assumption is based on experience of Rhode Island MERS general employees.

Years of Service	Service-Related Component	Total Increase
1	4.00%	7.00%
2	3.00	6.00
3	2.75	5.75
4	2.50	5.50
5	2.25	5.25
6	2.00	5.00
7	1.25	4.25
8	0.75	3.75
9-10	0.50	3.50
11-15	0.25	3.25
16 or more	0.00	3.00

Actuarial Methods and Assumptions (Continued)

7. Retirement rates: Unreduced retirement rates: a flat 25% per year retirement probability for members eligible for unreduced retirement. A 50% retirement probability at first eligibility will be applied.

Reduced retirement rates:

Age	Probability of Retirement	Age	Probability of Retirement
55	4%	61	15%
56	4%	62	30%
57	4%	63	25%
58	5%	64	25%
59	5%	65	60%
60	15%	66	80%

Terminated vested members are assumed to retire when eligible for normal retirement with service at termination date.

8. Investment and Administrative Expenses

The assumed investment return rate represents the anticipated net return after payment of all investment expenses. Administrative expenses are assumed to be equal to the actual administrative expenses for the fiscal year preceding the valuation date.

9. Benefit and Compensation Limits

Benefit limits under Section 415 and compensation limits under Section 401(a)(17) of the Internal Revenue Code are assumed to have no impact on benefits earned under this plan.

10. Marriage

85% of men and 55% of women are assumed to be married before retirement. Husbands are assumed to be three years older than wives.

11. Military Service Buyback

None assumed.



Actuarial Methods and Assumptions (Continued)

- 12. Sick Pay Buyback** 25% of employees are assumed to apply their unused sick pay toward the purchase of 6 months of additional pension service at termination or retirement.
- 13. Cost-of-living Increases** It is assumed the cola formula will produce 0.75% annual cost-of-living increases over time. Plan provides cost-of-living increases contingent on the adequacy of a “bank” determined by fund performance.
- 14. Interest on accounts** Interest is credited to member contribution accounts based on a short-term return, assumed to be 3.00% per annum in the future.
- 15. Decrement Timing** For all members, decrements are assumed to occur at the beginning of the year.

TABLE 9

Outline of Principal Plan Provisions

1. *Effective Dates:*

- a. Original Plan July 1, 1965.
- b. Most Recent Amendment Recognized in Valuation July 1, 2000.

2. *Eligibility:*

Non-elected employees are eligible to participate after 6 months of employment. Members who join the Plan by June 30, 2012 are in Tier 1, while members join later are in Tier 2. Elected officials are eligible on the date they assume their elected position.

3. *Normal Retirement:*

- a. Eligibility Non-elected members who have attained age 65 and have reached their fifth anniversary of participation, and elected members who have attained age 60 and have reached their sixth anniversary of participation may retire.
- b. Benefit Formula The monthly benefit at retirement is equal to a benefit multiplier (different by tiers) times final average monthly compensation multiplied by years of creditable service. A benefit multiplier is equal to 2.50% for Tier 1 members while it is equal to 2.00% for Tier II members. Final average monthly compensation is one-twelfth of the average of the highest three consecutive years of base compensation. However, no elected member will receive less than one-twelfth of the sum of \$1,500 plus \$200 multiplied by years of creditable service; the sum not to exceed \$5,500. Plan compensation is equal to the sum of base compensation and longevity pay.
- c. Commencement Date Payments will commence on the first day of the month coincident with or next following the member's actual retirement and filing of his written application for benefits.



Outline of Principal Plan Provisions (Continued)

- d. Form of Payment The benefits calculated in accordance with the formula in (b) above are payable monthly with payments ceasing at the retired member's death. The member may also elect actuarially reduced benefits that are payable in the form of a 100%, 75%, or 50% joint and survivor annuity, 10-year certain and continuous annuity, or level income annuity. In no event will the total monthly benefits paid to a retired member and his beneficiary be less than the contributions made by the member during employment.

4. *Early Retirement:*

- a. Eligibility Any member other than an elected official who retires after age 55 with at least 10 years of creditable service or any member whose years of age plus service total 80 or more. An elected official is eligible upon attainment of age 55 with at least 6 years of service.
- b. Benefit Formula The benefit amount determined under the normal retirement formula above, reduced for commencement prior to age 65, is payable at early retirement. The reduction is equal to $\frac{1}{2}\%$ per month for the first sixty months prior to normal retirement age, plus $\frac{1}{3}\%$ per month thereafter.
- For Tier I non-elected members - If the sum of the retired member's years of age plus service is at least equal to 80, there is no reduction for early commencement.
- For Tier II non-elected members - If the retired member at age 59 with 25 or more of credited years of service, there is no reduction for early commencement.
- c. Commencement Date The first day of the month coincident with or next following the member's early retirement date and filing of his written application for benefits.
- d. Form of Payment Same as normal retirement.



Outline of Principal Plan Provisions (Continued)

5. *Late Retirement:*

- a. Eligibility Continued employment beyond normal retirement.
- b. Benefit Formula Same as normal retirement benefit formula determined as of the member's actual retirement date.
- c. Commencement Date The first day of the month coincident with or next following the member's late retirement and filing of his written application for benefits.
- d. Form of Payment Same as normal retirement.

6. *Vested Termination:*

- a. Eligibility Upon termination of employment, a non-elected member is eligible for a benefit deferred to retirement age after 10 years of creditable service. An elected member is eligible after 6 years of creditable service.
- b. Benefit Formula Same as early retirement. For all members except elected officials, the benefit amount determined under the normal retirement formula is increased by 3% per year between termination and retirement.

In lieu of receiving retirement benefits, a member may receive in a lump sum payment his or her accumulated contributions with interest at any time prior to commencement of retirement benefits.
- c. Commencement Date First day of the month following receipt of the member's written application but not before the member is eligible for early retirement.
- d. Form of Payment Same as normal retirement.

7. *Disability Retirement:*

- a. Eligibility A non-elected member who has completed 10 years of creditable service or an elected member who has completed 6 years of creditable service, and who is totally disabled as determined by the City's Medical Board.
- b. Benefit Formula Same as normal retirement above but reduced by Worker's Compensation payments.



Outline of Principal Plan Provisions (Continued)

- c. Commencement Date Retroactively payable to the first day of the month which is two months prior to the date a member is determined to be disabled, but no earlier than 90 days after the date of disability.
- d. Form of Payment Payable monthly with payments ceasing at the member's death. Benefits shall cease if a member recovers prior to age 65.

8. Non-vested Termination of Employment:

A non-elected member who leaves employment prior to completing 10 years of creditable service or an elected member who leaves prior to completing 6 years of creditable service will receive a lump sum payment of his accumulated contributions with interest.

9. Death Before Retirement -- Annuity to Surviving Spouse:

- a. Eligibility Any married non-elected member with 10 years of creditable service or any married elected member with 6 years of creditable service who dies while still employed after age 50.
- b. Benefit Formula The benefit is the same as vested deferred or early retirement with reduction for each month by which benefit commencement precedes age 65 and further reduced to reflect the optional form of payment which provides payments at the same rate to the surviving spouse. A member's surviving spouse may elect to receive a lump sum payment equal to the member's accumulated contributions with interest in lieu of the annuity described above.
- c. Commencement Date First day of the month following the later of the member's death or the member's earliest retirement date.
- d. Form of Payment Annuity providing monthly payments ceasing on the spouse's death.



Outline of Principal Plan Provisions (Continued)

10. Death Before Retirement - Lump Sum Refund of Contributions:

- a. Eligibility Any terminated member with a deferred vested benefit, or an active member not eligible for the surviving spouse's annuity described above.
- b. Benefit Lump sum payment equal to member's accumulated contributions with interest.

11. Additional Death Benefit:

- a. Eligibility Any active member or retired member.
- b. Benefit An \$8,000 lump sum amount will be paid to the deceased member's designated beneficiary in addition to any other death benefits provided by the plan.

12. Retiree Cost-of-Living

Increases:

An increase is provided annually on July 1 to all retired members and beneficiaries in pay status if the plan's cumulative investment return as of the previous July 1 has exceeded a target level based on negotiated salary increases for active employees.

13. Military Service Buyback:

An active employee eligible to retire, or who has attained age 55 and completed eight years of creditable service, and who has served in the U.S. armed forces, may "purchase" additional years of creditable service up to his number of years of military service, but no more than four years. This purchase would require the employee to contribute to the plan at retirement 6% of his final year's salary for each year of creditable service purchased.

14. Unused Sick Pay Buyback:

A member may, in lieu of receiving one half of his accumulated sick pay in cash at termination or retirement, receive pension service credit for the unused sick pay (6-month maximum).

15. Employee Contributions:

A non-elected member contributes 9.5% of his annual base compensation and longevity compensation; an elected member contributes 9.5% of his annual base compensation plus \$20 per month. Employee contributions are made on a pre-tax basis under IRC Section 414(h)(2). Contributions receive interest determined annually by the Retirement Board.



Glossary

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.



Glossary (Continued)

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.



Glossary (Continued)

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically, a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and GASB 27: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.



Glossary (Continued)

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

