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Westerly Police Pension Fund

Actuarial Valuation Report
as of July 1, 2011

Timothy Ryor, FSPA, FCA,
MAAA, EA
Consulting Actuary

Cathleen Falconer
Pension Analyst

November 23, 2011

November 23, 2011

Mr. Steven T. Hartford
Town Manager
Town of Westerly
Town Hall
45 Broad Street
Westerly, RI 02891

Re: Westerly Police Pension Fund Actuarial Report

Dear Mr. Hartford:

Enclosed are the original and two copies of the above report. Let us know if additional copies are desired. We have sent a copy directly to your auditor.

Please call me if you should have any questions.

Sincerely,

Timothy Ryor, FSPA, FCA, MAAA, EA
Senior Vice President and Consulting Actuary

/mmh
Enclosures

Copy with enclosure: James Lathrop, Finance Director
Patricia A. Boucher, CPA, Bacon & Company CPAs, LLC

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November 7, 2011

Mr. Steven T. Hartford
Town Manager
Town of Westerly
Town Hall
45 Broad Street
Westerly, RI 02891

Dear Mr. Hartford:

We are pleased to present our review of the Town of Westerly Police Pension Fund for the fiscal year beginning July 1, 2011. The valuation was made as of July 1, 2011 and includes budgetary recommendation for the fiscal years beginning July 1, 2012. The recommended Town contribution level is detailed below:

Town's 2011-2012 Contribution (from prior valuation):

	Pension	OPEB	Total
(a) Normal Cost	\$ 476,900	\$ 93,100	\$ 570,000
(b) Amortization of Unfunded Actuarial Liability	<u>1,078,400</u>	<u>484,300</u>	<u>1,562,700</u>
Total	\$1,555,300	\$577,400	\$2,132,700

Town's 2012-2013 Contribution:

	Pension	OPEB	Total
(a) Normal Cost	\$ 479,900	\$ 95,900	\$ 575,800
(b) Amortization of Unfunded Actuarial Liability	<u>1,130,800</u>	<u>489,000</u>	<u>1,619,700</u>
Total	\$1,610,700	\$ 584,900	\$2,195,500

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November 23, 2011

Mr. Steven T. Hartford

Town of Westerly

Re: Westerly Police Pension Fund Actuarial Report

The total Town contribution increased by about 4.3% primarily due to prior year investment losses not yet fully realized and a change in the mortality assumption offset by liability gains.

Please let me know if you have any questions or need additional information.

Sincerely,

Timothy Ryor, FSPA, FCA, MAAA, EA
Senior Vice President and Consulting Actuary

/mmh
Enclosure

c: James Lathrop, Finance Director
Patricia A. Boucher, CPA, Bacon & Company CPAs, LLC

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Section I

Valuation Balance Sheet

The results of the valuation are presented in the following table:

Valuation Balance Sheet

	June 30, 2011	June 30, 2010
Sources of Funds		
Actuarial Value of Assets	\$ 24,617,344	\$ 23,619,125
Present Value of Future Amortization Payments	19,772,818	18,999,649
Present Value of Future Contributions	<u>7,661,873</u>	<u>7,873,904</u>
Total Sources of Funds	52,052,035	50,492,678
Actuarial Liabilities		
Present Value of Future Pensions (Active Members)	\$ 19,328,532	\$ 18,095,146
Reserve for Retired Members, Widows and Terminated Vesteds	<u>32,723,503</u>	<u>32,397,532</u>
Total Actuarial Liabilities	\$ 52,052,035	\$ 50,492,678

The value of the fund (cash and securities) as of June 30, 2011 was determined as of that date from the Town's Audited Financial Statements.

The actuarial liability item "Present Value of Future Pensions (Active Members)" takes into account all such pensions which currently active members are expected to receive at normal retirement date, not merely the portions thereof accrued to date. The item "Reserve for Retired Members and Widows" represents the Plan's actuarial liability for pension benefits which are expected to be paid to presently retired members and their beneficiaries.

The "Present Value of Future Contributions" is the balancing item and represents the actuarial present value of future service (Normal Cost) contributions (employer and employee) anticipated with respect to presently active members.

Section II

Development of Asset Values

Summary of Fund Activity		
	Market Value	Actuarial Value**
1. Beginning value 7/1/2010		
a. Trust assets	\$ 21,442,637	\$ 23,619,125
b. Accrued contribution	0	0
c. Benefits payable	0	0
d. Administrative expenses payable	0	0
e. Net: (a)+(b)-(c)-(d)	21,442,637	23,619,125
2. Contributions		
a. Contributions during year	2,004,719	2,004,719
b. Change in accrued contribution	0	0
c. Total for plan year	2,004,719	2,004,719
3. Disbursements *		
a. Benefit payments during year	2,321,451	2,321,451
b. Administrative expenses during year	0	0
c. Change in benefits payable	0	0
d. Change in administrative expenses payable	0	0
e. Total for plan year	2,321,451	2,321,451
4. Net investment return		
a. Interest and dividends	857,787	N/A
b. Change in accrued income	(19,000)	N/A
c. Realized gain (loss)	561,451	N/A
d. Unrealized gain (loss)	2,015,016	N/A
e. Expected return	N/A	1,766,222
f. Recognized gain (loss)	N/A	(451,271)
g. Required adjustment due to corridor	N/A	0
h. Reversal of prior year required adjustment	N/A	0
i. Investment-related expenses	(48,191)	N/A
j. Total	3,367,063	1,314,951
5. Ending value 7/1/2011 **		
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	24,492,968	24,617,344
b. Accrued contribution	0	0
c. Benefits payable	0	0
d. Administrative expenses payable	0	0
e. Net: (a)+(b)-(c)-(d)	24,492,968	24,617,344
6. Approximate rate of return 2010-2011	15.2%	5.4%

*Includes \$713,058 in net retiree medical costs.

**Asset split as of July 1, 2011:

	Market Value	Actuarial Value
Pension	\$17,084,916	\$17,171,674
OPEB	\$7,408,052	\$7,445,670

Section II
Development of Asset Values
(continued)

Relationship of Actuarial Value to Market Value		
1. Market value 7/1/2011	\$	24,492,968
2. Gain / (loss) not recognized in actuarial value 7/1/2011		(124,376)
3. Preliminary actuarial value 7/1/2011: (1)-(2)		24,617,344
4. Preliminary actuarial value as a percentage of market value: (3)÷(1)		100.5%
5. Gain / (loss) recognized for corridor min/max		N/A
6. Actuarial value 7/1/2011 after corridor min/max: (3)+(5)		24,617,344
7. Actuarial value as a percentage of market value: (6)÷(1)		100.5%

Development of Market Value Gain / (Loss) for 2010-2011 Plan Year		
1. Market value 7/1/2010	\$	21,442,637
2. Contributions		2,004,719
3. Benefit payments		2,321,451
4. Administrative expenses		0
5. Expected return at 8.00%		1,766,222
6. Expected value 7/1/2011: (1)+(2)-(3)-(4)+(5)		22,892,127
7. Market value 7/1/2011		24,492,968
8. Market value gain / (loss) for -1 Plan Year: (7)-(6)		1,600,841

Recognition of Gain / (Loss) in Actuarial Value					
Year	(a) Gain / (loss)	(b) Recognized as of 7/1/2010	(c) Recognized in current year: 20% of (a)	(d) Total recognized as of 7/1/2011: (b)+(c)	(e) Not recognized as of 7/1/2011: (a)-(d)
2006-2007	\$ 940,796	\$ 752,636	\$ 188,160	\$ 940,796	\$ 0
2007-2008	(1,911,233)	(1,146,741)	(382,247)	(1,528,988)	(382,245)
2008-2009	(3,546,249)	(1,418,500)	(709,250)	(2,127,750)	(1,418,499)
2009-2010	659,491	131,898	131,898	263,796	395,695
2010-2011	1,600,841	0	<u>320,168</u>	320,168	<u>1,280,673</u>
Total			(451,271)		(124,376)

Section III

Normal Cost for Plan Year

The Normal Cost is the portion of the Actuarial Present Value of Future Benefits that a cost method allocates to the current plan year.

Under the Entry Age Actuarial Cost Method, the Normal Cost for plan benefits is the total of the individual Normal Costs for active participants. The cost method derives the Normal Cost for each active participant by distributing the individual's Actuarial Present Value of Future Benefits over expected salary-weighted service from Entry Age. Each year of expected service is weighted by the expected salary in that year in order to produce an individual annual Normal Cost that will remain level as a percentage of salary.

Normal Cost				
	July 1, 2011		July 1, 2010	
	Pension	OPEB	Pension	OPEB
1. Total normal cost for benefits	\$ 768,553	\$ 91,033	\$ 743,212	\$ 84,763
2. Administrative expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
3. Total normal cost	768,553	91,033	743,212	84,763
4. Employee contributions	<u>313,788</u>	<u>0</u>	<u>308,537</u>	<u>0</u>
5. Employer Normal Cost: (3) – (4) (rounded to nearest \$100)	454,800	91,000	434,700	84,800
6. Total salary	3,010,489	3,010,489	3,010,110	3,010,110
7. Total employer cost as a percentage of plan salaries: (5) ÷ (6)	15.11%	3.02%	14.44%	2.82%
8. Expected ARC Year* Payroll: (6) x 1.04	3,176,066	3,176,066	3,175,666	3,175,666
9. ARC Year* Normal cost: (7) x (8) (rounded to nearest \$100)	479,900	95,900	476,900	93,100

*ARC = GASB 25/27 Annual Required Contribution, 2011 valuation is used to determine the 2012-2013 ARC.

**Section III
(continued)**

**Unfunded Actuarial Accrued Liability
(Entry Age Normal Method)**

Actuarial Balance Sheet			
	Pension	OPEB	Total
1. Liabilities – Present Value of Future Benefits			
a. Actuarial accrued liability			
i. Active participants	\$ 9,386,113	\$2,201,207	\$11,587,320
ii. Terminated vested participants	236,996	0	236,996
iii. Retired participants	<u>21,296,799</u>	<u>11,189,708</u>	<u>32,486,507</u>
iv. Total	30,972,826	13,470,254	44,310,823
2. Actuarial Value of Assets	\$17,171,674	\$ 7,445,670	\$24,617,344
3. Funded Ratio*: [2 ÷ 1(iv)]	55.6%	55.6%	55.6%
4. Unfunded actuarial accrued liability: [1(iv) – 2]	13,748,234	5,945,245	19,693,479
5. 30-year amortization (rounded to nearest \$100)	1,130,800	489,000	1,619,700

**Note: If OPEB liabilities were unfunded, the pension liabilities would be 79.6% funded.*

Section IV

Town Contribution for 2011-2012 and 2012-2013

The Town's rate of contribution for future service (Normal Cost) for the fiscal year 2011-2012 was calculated as 17.45% of valuation payroll. For the fiscal year 2011-2012 it is 17.26% of valuation payroll. The term "payroll" is intended to mean the same basis as that on which members' employee deductions are computed. The percentage of contribution by the Town is, of course, in addition to contributions from members.

In addition to the Normal Cost the Town should also contribute a specified amount of amortization of the so-called "unfunded actuarial liability" (Present Value of Future Amortization Payments), as indicated below.

Based on the payroll figures furnished, the Town's contribution on this basis should be as follows:

Town's 2011-2012 Contribution:

	Amortization Period		
	30 Years		
	Pension	OPEB	Total
Normal Cost (18.94% of \$3,010,110)	\$ 476,900	\$ 93,100	\$ 570,000
Amortization Payment	<u>1,078,400</u>	<u>484,300</u>	<u>1,562,700</u>
Total Town Contribution	\$1,555,300	\$577,400	\$2,132,700

Town's 2012-2013 Contribution:

	Amortization Period		
	30 Years		
	Pension	OPEB	Total
Normal Cost (18.90% of \$3,176,066)	\$ 479,900	\$ 95,900	\$ 575,800
Amortization Payment	<u>1,130,800</u>	<u>489,000</u>	<u>1,619,700</u>
Total Town Contribution	\$1,610,700	\$ 584,900	\$2,195,500

Section V

Description of Actuarial Methods

Actuarial Cost Method

A. Changes in Actuarial Cost Method as of July 1, 2011: None

B. Description of Current Actuarial Cost Method.

In calculating recommended contributions and valuing your Plan, the actuarial valuation method used is the Entry Age Normal method (level percentage of salary). Under this method, the normal cost is the sum of the individual normal costs for all active participants. The normal cost is the normal cost accrual rate (equal to the present value of future benefits of the participant at entry age divided by the present value of compensation expected to be paid each year) multiplied by the participant's current compensation.

A participant's accrued liability equals the present value of future benefits less the present value of the individual normal costs payable in the future.

The entry age used for each active participant is the participant's age at the time they would have commenced participation in the plan had the plan always been in existence or the age which they first earn credited service for benefit accrual.

The unfunded accrued liability equals the total accrued liability less the actuarial value of assets. This unfunded liability is amortized over 30 years.

All of the above calculations are based on the assumptions shown on the following page.

Asset Valuation Method

The Actuarial Value of assets used in development of plan contributions phases in recognition of the difference between the actual return on Market Value and the expected return on Market Value over a five-year period at 20% per year. It was first being used with the 2009 valuation.

Section VI

Outline of Actuarial Assumptions

The actuarial assumptions used in computing costs and liabilities under the Plan are as follows:

Interest: 8% net of expenses (bank fees) compounded annually.

Mortality: Current: RP-2000 Combined Blue Collar Fully Generational, non-annuitant table for participants, annuitant table for retirees and inactives. Unprojected disabled table.

Prior: RP-2000 Combined projected to valuation date, non-annuitant table for participants, annuitant table for retirees and inactives, blue collar adjustment for participant and no collar adjustment for beneficiaries. Unprojected disabled table.

Turnover: 10% Vaughn Select & Ultimate.

Sample termination rates are as follows:

<u>Age</u>	<u>Ultimate Rates</u>
25	1.36%
30	1.01
35	0.79
40	0.65
45	0.55
50	0.45
55	0.00

Retirement Age: Based on years of service.

<u>Years of Service</u>	<u>Rate</u>
20	15.0%
21	17.5%
22	25.0%
23	35.0%
24	50.0%
25	66.7%
26	75.0%
27+	100.0%

Exhibit VI

Outline of Actuarial Assumptions (continued)

Salary Scale: Based on years of service.

<u>Years of Service</u>	<u>Percent Increase</u>
0	16.0%
1	14.0%
2	12.0%
3	10.0%
4	8.0%
5 – 9	6.5%
10 – 14	4.0%
15 – 19	3.5%
20 & above	3.0%

Expense Loading: None. Expenses other than "bank fees" are assumed to be paid directly by the Town.

Disability Benefits: Costed directly. 75% of disabilities considered occupational.

Rate of Disablement: 33% of the 1985 Pension Disability Table Class 4 rates for males and females.

Line of Duty Death: Costed directly. 75% of deaths considered "in-line of duty".

COLA: Valued explicitly.

Normal Form: Valued explicitly. 70% of males and 60% of females assumed married with wives 3 years younger. 100% of those assumed married expected to select the 67.5% Joint & Survivor form.

Exhibit VI

Outline of Actuarial Assumptions (continued)

Severance: Valued explicitly.

Assumed Claim Rates:	<u>Annual Amount</u>	
	<u>Current</u>	<u>Prior</u>
Medical pre-65	\$88,909.88	\$8,909.88
Medical post-65	8,133.48	6,793.20
Dental	672.72	620.46
Medicare Part B	1,158.00	1,158.00

Morbidity: Pre-65 medical claim rates are adjusted for age using the following table:

<u>Age</u>	<u>Increase in Costs</u>
To age 45	2.7%
46 - 50	3.0%
51 - 54	3.3%
55 - 59	3.6%
60 - 64	4.2%
65 - 69	3.0%
70 - 74	2.5%
75 - 79	2.0%
80 - 84	1.0%
85 - 89	0.5%
90+	0.0%

Average age of the insured group is assumed to be 51.

Trend: Healthcare cost trend rates for medical.

<u>Year</u>	<u>Increase</u>
2007	10%
2008	9%
2009	8%
2010	7%
2011	6%
2012 & after	5%

Dental: 4%

Section VII

Conclusion

In preparing this Report, we relied upon Town supplied plan provisions, employee data and assets (both unaudited by us). We reviewed the employee data and assets for reasonableness.

Exhibit I is an outline of the principal plan provisions.

Exhibit II traces employee participation in the plan during the past year.

This valuation reflects an employee contribution rate of 11% for the July 1, 2011 – June 30, 2012 fiscal year and thereafter.

In our opinion the foregoing report presents fairly the financial and actuarial position of the Town of Westerly Police Pension Fund as of June 30, 2010 in accordance with generally accepted actuarial principles and practices applied on a basis consistent with that of the preceding valuation, except where noted.

The actuarial present values shown have been estimated on the basis of actuarial assumptions which, in the opinion of the actuary, are appropriate for the purposes of the Report, are reasonable in the aggregate (taking into account the experience of the Plan and reasonable expectations), and, when applied in combination, represent his best estimate of the measure of anticipated experience under the Plan.

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

I am independent of the Town of Westerly, Rhode Island in accordance with *Government Auditing Standards*.

Hooker & Holcombe, Inc.

Timothy Ryor, FSPA, FCA, MAAA, EA
Senior Vice President and Consulting Actuary

November 7, 2011

Exhibit I

Outline of Principal Plan Provisions

Effective Date: March 1, 1949.
Arbitration Award dated July 8, 1985.
Master Agreement dated July 1, 1990.
Arbitration Award dated August 26, 1993.
Rhode Island Supreme Court dated June 22, 1995.
Master Agreement dated April 25, 1997 (effective 7/1/95).
Master Agreement effective July 1, 1998 to June 30, 2001.
Master Agreement effective July 1, 2001 to June 30, 2004.

Eligibility: All regular police officers are eligible to participate.

Credited Service: Period of employment as police officer of Town.

Normal Retirement: Effective July 1, 1987, a policeman may retire upon completion of 20 years of service.

Normal Retirement Benefit: A pension for life computed as 50% of annual pay for 20 years service plus 2% times annual pay for each year of service over 20 years (maximum service equals 25 years). "Annual Pay at Retirement" shall mean a sum equal to the base salary received by the individual retiree for the twelve (12) months immediately preceding his retirement date.

Normal Form of Benefit 67.5% Joint & Survivor

Disability Retirement: Non-Occupational Causes - A pension computed as follows:

<u>Years of Service</u>	<u>Percent of Final Annual Pay</u>
10 or less	10%
10 to 15	18
15 to 20	27

Occupational Causes - A monthly income equal to 50% of annual rate of pay at time of disability.

Exhibit I

Outline of Principal Plan Provisions (continued)

- Vesting: Effective June 30, 1985, 100% vested after 10 years of service - a deferred monthly income equal to accrued benefit commencing at normal retirement. Terminating police with less than 10 years receive a return of employee contributions with interest.
- Death Benefits:
- (A) Pre-Retirement: Return of member's contributions with interest.
- (B) Post-Retirement: Continuation of 67-1/2% of deceased retired member's pension to spouse until death or remarriage. If no eligible spouse, then benefit payable to dependent children under age 18. Insurance continuation until death or remarriage or failure to qualify as a dependent child.
- Death in Line of Duty:
(Effective July 1, 1990): In the event a member of bargaining unit is killed in the line of duty, their heirs shall receive whatever benefits the member would have been entitled to as though they had been members of the bargaining unit for 20 years.
- Automatic Cost-Of-Living: Any Policeman retiring on or after June 30, 1990 shall be entitled to a 2½% cost-of-living escalator, not compounded, as of July 1, 1994, and each succeeding year.
- All members who retired prior to June 30, 1990 receive a 2½% non-compounded annual pension adjustment retroactive to July 1, 1993. Members retiring on or after July 1, 1998 receive a 3% non-compounded annual pension adjustment.
- Member Contributions: 11% of pay (10% prior to July 1, 2005). Returnable on termination of employment, or to estate on death prior to 10 years of service. 9% of pay for the Fiscal Year beginning July 1, 2003.

Exhibit I

Outline of Principal Plan Provisions (continued)

Severance Pay:

Payment to retirees in accordance with terms of arbitrators award May 23, 1979.

Members who retire with 25 or more years of service shall receive severance pay based on 1 ½ days for each year of service at retirement.

Medical, Dental and Life Insurance Benefits:

Coverage to retirees in accordance with terms of arbitrators award of May 23, 1979 (revised July 8, 1985). Effective July 1, 1990 the Town shall pay for all the Blue Cross and health benefits for all employees who retire with at least twenty (20) years of service.

Employees hired prior to July 1, 1993, shall, upon retirement, contribute the same percentage of medical coverage as they contribute at the time of retirement.

Employees hired on or after July 1, 1993 and retiring after at least twenty (20) years of active service will pay 15% of the cost of health care coverage at the full mature working rate or monthly premium cost and the Town will pay the balance up to a maximum of \$6,000 per year (\$500 per month) until the employee reaches age 65, after which time the employee will pay 15% of the premium cost or fully mature working rate of Plan 65 and the Town will pay the balance up to a maximum of \$6,000 per year (\$500 per month). Any amounts in excess of \$6,000 shall be borne by the employee.

Coverage to retirees and spouses includes dental insurance for life and a reimbursement of Medicare Part B premium to retirees only after age 65.

Exhibit II

Employee Participation: July 1, 2010 - June 30, 2011

Active Members

	Number	Payroll	Average Pay
Active Members, July 1, 2010	45	\$2,838,895	\$63,087
New Members During Year	+5		
Terminations During Year	-1		
Military Leave of Absence	-2		
Deaths During Year	0		
Retirements During Year	<u>0</u>		
Active Members, June 30, 2011	47	<u>\$2,847,036</u>	\$60,575

Retired Members

	Number	Annual Pension
Retirees, July 1, 2010	40	\$1,507,887
Adjustment	0	
Retirements During Year	0	
Deaths During Year	<u>-1</u>	
Retirees, June 30, 2011	39	<u>\$1,497,880</u>

Widows

	Number	Annual Pension
Widows, July 1, 2010	5	\$ 70,723
Adjustment	0	
Additions During Year	+1	
Deaths During Year	<u>0</u>	
Widows, June 30, 2011	6	<u>\$ 102,512</u>

Terminated Vested

	Number
Terminated Vesteds, July 1, 2010	1
Terminations During Year	0
Leave of Absence (military)	<u>+2</u>
Terminated Vesteds, June 30, 2011	3

Exhibit II

Age/Service Chart

Schedule of Active Participant Data																				
Westerly Police Pension Fund																				
July 1, 2011																				
Completed Years of Credited Service																				
Attained Age	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 and over	
	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.
Under 25	3		2																	
25 to 29	1		4		2															
30 to 34	1		3		1		1													
35 to 39					4		5		1											
40 to 44					2		5		4		5									
45 to 49											1									
50 to 54							1													
55 to 59									1											
60 to 64																				
65 to 69																				
70 & over																				