July 1, 2010

POST RETIREMENT BENEFITS ANALYSIS

OF

THE CITY OF CRANSTON

FIRE AND POLICE

October, 2010

A Xerox Company

buckconsultants

TABLE OF CONTENTS

SECTION I – OVERVIEW

The City of Cranston has engaged Buck Consultants to prepare an actuarial valuation of post-retirement benefits program as of July 1, 2010. The City provided employee data and premium information. The purposes of the valuation are to analyze the current funded position of the City's post-retirement benefits program, determine the level of contributions necessary to assure sound funding and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Government Accounting Standards Board's Standard Number 45 entitled "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

Liabilities have been determined based on an 8.0% discount rate. Section II provides a summary of the principal valuation results. Section V provides a projection of funding amounts.

During the year, the Plan realized an increase in the accrued liability of $231,669. The expectation was an increase of $1,797,875. The difference reflects the net effect of Plan experience but mainly is due to the pre-65 claims costs only increasing 2% rather than the assumed trend of 8%.

Daniel Sherman is an Associate of the Society of Actuaries. He is a Member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

Respectfully Submitted,

BUCK CONSULTANTS, LLC

David Sherman | 10/28/10

Daniel Sherman, ASA, MAAA, EA
Director and Consulting Actuary

Date

Marcus Cleary | 10/28/2010

Marcus Cleary, ASA, MAAA
Consultant

Date

SECTION II – REQUIRED INFORMATION

Fire and Police Results

Interest Rate	8.00%	8.00%
Increasing Rate	4.50%	4.50%
Years to Amortize	27	26

a)	Actuarial valuation date		July 1, 2009		July 1, 2010
	Discount rate		8.00%		8.00%
b)	Actuarial value of assets	$	397,327	$	450,533
c)	Actuarial accrued liability				
	Active Participants	$	19,875,583	$	20,309,251
	Retired Participants	$	30,657,858	$	30,455,859
	Total	$	50,533,441	$	50,765,110
d)	Unfunded actuarial liability	$	50,136,114	$	50,314,577
e)	Funded ratio (b. / c.)		0.79%		0.89%
f)	Annual covered payroll		n/a		n/a
g)	Unfunded actuarial liability as percentage of covered payroll		n/a		n/a
h)	Normal Cost for the fiscal year	$	1,334,389	$	1,255,135
i)	Amortization of unfunded actuarial liability for fiscal year (payments **increasing** 4.5% per year)	$	2,757,912	$	2,833,924
j)	Annual Required Contribution (ARC) for the fiscal year as of July 1 (h. + i.)	$	4,092,301	$	4,089,059
k)	Expected premium payments	$	3,546,798	$	3,723,772

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of employees included in valuation

Actives	327
Inactives:	
Retirees	205
Spouses	163
Retiree with Life Only	213
Grand Total	908

Census data only includes current eligible employees and former employees of the Police and Fire departments.

Annual Premiums for 2010

Healthmate – Fire	
Individual	7,174
Family	17,443
Healthmate – Police	
Individual	6,998
Family	17,443
Blue Cross Classic – Fire	
Individual	7,230
Family	19,129
Blue Cross Classic – Police	
Individual	7,224
Family	19,129
United Healthcare – Fire and Police	
Individual	9,330
Family	25,544

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

8.0% DISCOUNT RATE

A. Annual Net OPEB Obligations

Year Ending June 30	(a) Annual Required Contribution	(b) Interest on NOO	(c) Amortization of NOO	(d) Annual OPEB Cost (a)+(b)-(c)	(e) Actual Contribution	(f) Change in NOO (d)-(e)	(g) NOO Balance
2008	3,606,418	0	0	3,606,418	3,700,648	(94,230)	(94,230)
2009	4,047,835	(7,538)	(4,864)	4,045,161	3,273,843	771,318	677,088
2010	4,092,301	54,167	34,952	4,111,516	3,649,942	461,574	1,138,662
2011	4,089,059	91,093	64,134	4,116,018			

B. Funded Status and Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	Covered Payroll	[(b)-(a)]/(c) UAL as Percentage of Covered Payroll
07/01/2004	0	38,136,229	38,136,229	0.00%	n/a	n/a
07/01/2005	0	40,134,094	40,134,094	0.00%	n/a	n/a
07/01/2006	0	47,921,198	47,921,198	0.00%	n/a	n/a
07/01/2007	127,671	47,222,807	47,095,136	0.30%	n/a	n/a
07/01/2008	505,545	52,191,492	51,685,947	1.05%	n/a	n/a
07/01/2009	397,327	50,533,441	50,136,114	0.79%	4,638,936	1080.77%
07/01/2010	450,533	50,765,110	50,314,577	0.89%	4,099,268	1227.40%

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Standard Number 45 "Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions" outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases.

In the amortization schedule shown on the following page, amortization of the unfunded accrued liability is increasing at 4.5% for 26 years. The normal cost is expected to increase at the same rate as the assumed health care trend rate. The contributions were computed assuming that the contribution is paid on July 1, at the beginning of the fiscal year.

SECTION V – SCHEDULE OF ANNUAL REQUIRED CONTRIBUTIONS

8% DISCOUNT RATE

Fiscal Year Ending in	Normal Cost	Amortization of Unfunded Liability	Total Contribution	Pay-as-You-Go
2011	1,255,135	2,833,924	4,089,059	3,723,772
2012	1,317,892	2,961,451	4,279,343	3,900,307
2013	1,383,787	3,094,716	4,478,503	3,856,971
2014	1,452,976	3,233,978	4,686,954	3,904,786
2015	1,525,625	3,379,507	4,905,132	4,034,946
2016	1,601,906	3,531,585	5,133,491	4,318,694
2017	1,682,001	3,690,506	5,372,507	4,613,834
2018	1,766,101	3,856,579	5,622,680	4,822,492
2019	1,854,406	4,030,125	5,884,531	5,052,761
2020	1,947,126	4,211,481	6,158,607	5,541,903
2021	2,044,482	4,400,998	6,445,480	5,804,835
2022	2,146,706	4,599,043	6,745,749	6,048,717
2023	2,254,041	4,806,000	7,060,041	6,395,631
2024	2,366,743	5,022,270	7,389,013	6,707,440
2025	2,485,080	5,248,272	7,733,352	6,317,133
2026	2,609,334	5,484,444	8,093,778	6,360,095
2027	2,739,801	5,731,244	8,471,045	6,474,085
2028	2,876,791	5,989,150	8,865,941	6,356,896
2029	3,020,631	6,258,662	9,279,293	6,193,200
2030	3,171,663	6,540,302	9,711,965	6,031,082
2031	3,330,246	6,834,616	10,164,862	6,199,226
2032	3,496,758	7,142,174	10,638,932	5,770,703
2033	3,671,596	7,463,572	11,135,168	5,936,709
2034	3,855,176	7,799,433	11,654,609	5,988,370
2035	4,047,935	8,150,407	12,198,342	6,279,675
2036	4,250,332	8,517,175	12,767,507	5,999,223
2037	4,462,849	0	4,462,849	6,049,239
2038	4,685,991	0	4,685,991	5,446,592
2039	4,920,291	0	4,920,291	5,254,509
2040	5,166,306	0	5,166,306	4,825,196
2041	5,424,621	0	5,424,621	4,495,309

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Interest 8.0%, net of investment expenses

Actuarial Cost Method: Projected Unit Credit

Medical Care Inflation:

Year	*Inflation Rate*
2010	7%
2011	6%
2012 & later	5%

Amortization Period: Closed basis. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

Retirement Eligibility: 20 years of service or after becoming disabled.

Marital Status: Active participants are assumed to keep their current marital status upon retirement.

Premium: The weighted-average premium is based on the medical plan coverage of current retirees. The weighted average premium includes adjustment based on age to account for the implicit subsidy of older retirees true benefit cost.

Coverage: It is assumed that 95% of current active employees will elect retiree benefit coverage.

Plan Costs: Estimated net per capita incurred claim costs for 2009-2010 at age 65 was $8,411 and at age 64, $12,184. It is assumed that future retirees are Medicare eligible. Per capita costs were developed from the City developed monthly costs. There is no employee cost sharing.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Separations From Active Service: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Annual Rates of

Age	Disability	Death		Service Retirement	
		Male	**Female**	**Male**	**Female**
25	.17%	.04%	.02%		
30	.22	.04	.03		
35	.29	.08	.05		
40	.44	.11	.07		
45	.72	.15	.11	10.0%	10.0%
50	1.21	.21	.17	20.0	20.0
55	1.21	.30	.25	50.0	50.0
60	1.21	.49	.39	50.0	50.0
62	1.21	.59	.47	50.0	50.0
65		.76	.58	100.0	100.0
69		.95	.73	100.0	100.0

DEATHS AFTER RETIREMENT: The RP-2000 Healthy Annuitant Table. For the period after disability retirement, the RP-2000 Healthy Annuitant Table set forward 3 years is used.

Age-Based Morbidity: Medical costs are adjusted to reflect expected cost increases related to age. The increase in the net costs assumed to be:

Age	Annual Increase Retiree
50 and below	2.6%
50-55	3.2%
56-60	3.4%
61-65	3.7%
66-70	3.2%
71-75	2.4%
76-80	1.8%
81-85	1.3%
86 and over	0.0%

SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

Pre-Age 65 Retirees:

Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65, at which time their coverage stops unless they are not eligible for Medicare.

Spouses' City paid benefits cease upon reaching age 65 or at the death of retiree.

Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium.

Post-Age 65 Retirees:

Current retirees over age 65 remain in their current medical plan until death, if not eligible for Medicare. Spouses are not covered for City paid post-age 65 benefits.

Life Insurance Benefit:

Police retirees are entitled to a City paid life insurance benefit of $17,000 if they retired after July 1, 1982. Firemen retiring after July 1, 1981 are eligible for the $17,000 benefit. Fire retirees retired between July 1, 2002 and June 30, 2007 are entitled to a City paid life insurance benefit of $20,000 and if a firemen retirees after July 1, 2007, a $25,000 life insurance benefit is payable.

SCHEDULE C - GLOSSARY OF TERMS

Actuarial accrued liability
That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

Actuarial assumptions
Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial cost method
A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial experience gain or 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, as determined in accordance with a particular Actuarial Cost Method.

Amortization (of unfunded actuarial accrued liability)
That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

Annual OPEB cost
An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual required contributions of the employer (ARC)
The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

Closed amortization period (closed basis)
A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Covered payroll
Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan
An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Funded ratio
The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding policy
The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate
The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment return assumption (discount rate)
The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method
The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method
Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Net OPEB obligation
The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

Normal cost
That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt
All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits
Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-you-go
A method of financing a OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Required supplementary information (RSI)
Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.