

November 1, 2013

Actuarial Valuation Report:

The City of Newport, Rhode Island
Police Pension System as of July 1, 2013

HayGroup®



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This report presents the results of our actuarial valuation of the City of Newport, Rhode Island Police Pension System (the Plan) as of July 1, 2013.

The valuation includes a general discussion and comments on the various schedules included in the report. These schedules summarize the underlying calculations, asset information, participant data, plan benefits and actuarial assumptions, and should be considered an integral part of the valuation.

Purpose

The main purposes of this report are to provide to the City of Newport (the City):

- The pension contribution under the City's funding policy for the 2014-2015 plan year;
- The financial condition of the Plan; and
- Information relating to the disclosure and reporting requirements of Statements No. 25, and No. 27 of the Governmental Accounting Standards Board.

Certification

To the best of our knowledge, this report is complete and accurate and all costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are reasonable (taking into account past experience under the Plan and reasonable expectations) and which in combination represent our best estimate of anticipated experience under the Plan.

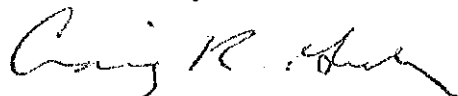
The actuaries certifying to this valuation are members of the Society of Actuaries or other professional actuarial organizations, and meet the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Prescribed Statements of Actuarial Opinion.

Respectfully submitted,

HAY GROUP, INC.



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Comments on the Valuation

This is Hay Group's second valuation of the Plan. This report includes results for prior years based on methods and assumptions developed by the prior actuary.

Plan Contribution

The Valuation Highlights exhibit shows the development of the Plan's contribution for the 2014-2015 fiscal year, developed in accordance with the City's funding policy. The total contribution is \$3,729,898. This total cost has decreased from \$3,954,174, which was developed for the 2013-2014 fiscal year. The main reason for the decrease was the asset gain for the year.

If the City wishes to pay the contribution on a monthly basis, beginning on July 31, the monthly payment would be \$300,626.

Funding Policy

The funding requirement is the sum of two components, an annual normal cost and an amortization payment which will change from year to year in response to evolving plan experience. It is our understanding that beginning with the July 1, 2002 valuation, the amortization period was reduced from 30 to 29 years, and that for each year the amortization period decreases by one year. Thus, the amortization period for the July 1, 2013 valuation is 18 years. The normal cost and amortization is then offset by anticipated employee contributions to the Plan, to arrive at the net City contribution.

Plan Assets

Schedule A contains information about the Plan's assets. The market value of the Plan's assets as of June 30, 2013 is \$48,411,954. The overall rate of return achieved for the 2012-2013 plan year was 12.6 percent.

The asset information used for the valuation was provided by the City. We have not audited such information, but have checked it for reasonableness and consistency.

Funding Status

Schedule B provides the information on pension plans required by Statement Number 25 of the Governmental Accounting Standards Board.

Schedule C provides the information on pension plans required by Statement Number 27 of the Governmental Accounting Standards Board.

Schedule D discloses estimated City contributions and Plan benefits over the next twenty years. This open group projection suggests that the Plan will emerge from "critical status" (i.e., have a funding ratio of greater than 60%) by the year 2016, if the actuarial assumptions are reflective of the actual experience.

Participant Data

Schedule E provides a distribution of the active participants as of July 1, 2013 by age and length of service. It also shows the average salary by age and service brackets. Schedule E also includes a breakdown of the inactive participants, by age and benefit amounts.

Although we have made tests to check for the reasonableness and consistency of the participant data, we have not audited the data but have relied on it as submitted by the City.

Actuarial Assumptions and Methods

Schedule F summarizes the actuarial assumptions and cost methods used for the valuation. There were two changes in actuarial assumptions for this valuation, as follows:

- The healthy male mortality assumptions were revised to remove the excessive margin for future mortality improvement included in the prior assumptions and
- The disability assumption was revised from 100% of disabilities being non-service related to 90% of disabilities being service related and 10% of disabilities being non-service related.

Otherwise, the actuarial assumptions and cost methods used for this valuation were unchanged from those used in the prior valuation.

Plan Provisions

Schedule G contains a summary of the principal provisions of the plan in effect as of July 1, 2013.

Valuation Highlights

	<u>July 1, 2012</u>	<u>July 1, 2013</u>
A. Membership Data		
1. Active Members		
a. Number	74	77
b. Expected covered payroll for fiscal year beginning on the valuation date	\$ 5,033,625	5,147,999
c. Average pay	\$ 68,022	66,857
d. Average age	42.7	41.6
e. Average service	16.0	14.7
2. Retired members and beneficiaries		
a. Number	123	120
b. Aggregate annual pension	\$ 4,486,987	4,588,837
c. Average annual pension	\$ 36,480	38,240
d. Average age	67.7	67.1
3. Deferred vested members		
a. Number	1	1
b. Aggregate annual pension	\$ 24,240	24,240
c. Average annual pension	\$ 24,240	24,240
d. Average age	44.0	45.0
B. Basic Valuation Results		
1. Normal cost ¹	\$ 1,089,741 (21.6%)	1,159,989 (22.5%)
2. Actuarial accrued liability		
a. Active members	\$ 24,077,799	22,935,533
b. Retirees and beneficiaries	58,201,674	59,469,626
c. Deferred vested	404,886	432,993
d. Total	\$ 82,684,359	82,838,152
3. Valuation assets	\$ 43,320,088	48,411,954
4. Unfunded actuarial accrued liability	\$ 39,364,271	34,426,198
	July 1, 2013 to June 30, 2014	July 1, 2014 to June 30, 2015
C. Development of Contribution		
1. Contribution for fiscal year of valuation		
a. Normal cost with interest	\$ 1,212,473	1,290,633
b. Amortization of unfunded actuarial accrued liability	3,173,832 ²	2,881,215 ³
c. Anticipated employee contributions with interest	(432,131)	(441,950)
d. City contribution assumed deposited June 30	\$ 3,954,174	3,729,898
2. Monthly City contribution beginning July 31	\$ 318,702	300,626

¹ Percentages in parentheses represent amounts as percentages of covered payroll.

² Amortized over 19 years from the valuation date as a level percentage of payroll.

³ Amortized over 18 years from the valuation date as a level percentage of payroll.

Schedule A: Analysis of Plan Assets

A.1. Schedule of Receipts and Disbursements

(1) Market Value at July 1, 2012		\$43,320,088
(2) Receipts		
a. City Contributions	\$3,461,972	
b. Member Contributions	403,980	
c. Net Investment Income	5,657,358	
d. Total Receipts	\$9,523,310	
(3) Disbursements		
a. Benefit Payments	\$4,431,444	
b. Total Disbursements	\$4,431,444	
(4) Market Value at June 30, 2013 [(1) + (2) - (3)]		\$48,411,954

A.2. Trust Investment Yield for 12 Months Ending June 30, 2013

1. Asset Market Value at July 1, 2012	\$43,320,088
2. City Contributions during the year (paid 7/1/12)	3,461,972
3. Member Contributions and Benefits paid during the year	(4,027,464)
4. Asset Market Value at June 30, 2013	48,411,954
5. Investment Increment	5,657,358
6. Approximate Average Asset Market Value (1) + (2) + [(3) / 2]	44,768,328
7. Approximate Yield Rate (5) / (6)	12.6%

Schedule B: GASB 25 Disclosure Information

B.1 Actuarial Accounting Date

Date Used to Compute Benefit and Asset Values — July 1, 2013

B.2. Method and Assumptions

All methods and assumptions used for Plan accounting are summarized in Schedule F.

B.3. Statement of Plan Net Assets

1. Assets	
a) Cash and Short Term Investments	\$(729,011)
b) Receivables	0
c) Investments at Fair Value	
(1) Fixed Income	9,708,693
(2) Domestic Equities	29,635,233
(3) Foreign Equities	6,718,777
(4) Alternative Investments	<u>3,125,295</u>
d) Total Assets	\$48,458,987
2. Liabilities	
a) Payables for Investments Purchased and Other Payables	47,033
3. Net Assets Held in Trust for Pension Benefits	\$48,411,954

B.4. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
6/30/02	28,060,710	65,986,217	(37,925,507)	42.53%	3,775,389	(1004.55%)
6/30/03	29,217,703	67,277,252	(38,059,549)	43.43%	4,007,324	(949.75%)
6/30/04	33,645,290	58,014,568	(24,369,278)	57.99%	4,383,668	(555.91%)
6/30/05	36,209,737	61,626,704	(25,416,967)	58.76%	4,527,283	(561.42%)
6/30/06	39,118,117	62,635,048	(23,516,931)	62.45%	4,757,611	(494.30%)
6/30/07	44,288,895	70,038,232	(25,749,337)	63.24%	4,752,900	(541.76%)
6/30/08	41,952,553	68,177,847	(26,225,294)	61.53%	5,129,935	(511.22%)
6/30/09	37,852,800	73,443,988	(35,591,188)	51.54%	4,990,094	(713.24%)
6/30/10	42,240,992	74,866,848	(32,625,856)	56.42%	4,972,175	(656.17%)
6/30/11	43,693,248	76,570,775	(32,877,527)	57.06%	5,048,815	(651.19%)
6/30/12	43,320,088	82,684,359	(39,364,271)	52.39%	5,033,625	(782.03%)
6/30/13	48,411,954	82,838,152	(34,426,198)	58.44%	5,147,999	(668.73%)

B.5. Schedule of Employer Contributions

Actuarial Valuation Date	Annual Required Contribution	Actual Contribution	Percentage Contributed
7/1/92	1,671,097	1,930,973	115.55%
7/1/93	1,823,577	2,136,173	117.14%
7/1/94	2,103,989	2,226,085	105.80%
7/1/95	2,279,943	2,322,898	101.88%
7/1/96	2,426,242	1,793,369	73.92%
7/1/97	2,547,554	2,759,907	108.34%
7/1/98	2,274,548	3,137,686	137.95%
7/1/99	2,094,752	2,510,675	119.86%
7/1/00	1,696,189	2,703,167	159.37%
7/1/01	1,985,197	2,273,062	114.50%
7/1/02	2,099,345	2,698,300	128.53%
7/1/03	3,247,875	3,247,875	100.00%
7/1/04	3,389,486	3,889,486	114.75%
7/1/05	2,440,649	2,440,649	100.00%
7/1/06	2,385,996	2,440,649	102.29%
7/1/07	2,272,177	2,272,049	100.00%
7/1/08	2,406,091	2,472,177	102.75%
7/1/09	2,470,822	2,670,822	108.09%
7/1/10	3,116,642	3,116,642	100.00%
7/1/11	2,899,579	2,899,579	100.00%
7/1/12	3,461,972	3,461,972	100.00%

Schedule C: GASB 27 Disclosure Information

Development of the Net Pension Obligation (Asset)

Fiscal Year Ending	Val. Interest Rate	Amort. Years	Amort. Factor	NPO at Beginning of Year	Annual Required Contribution	Interest on NPO	Adjustment to NPO	Annual Pension Cost	Actual Contribution	Increase in NPO	NPO at End of Year
6/30/93	8.00%	30	22.7490	(603,644)	1,671,097	(48,292)	26,535	1,649,341	1,930,973	(281,632)	(885,276)
6/30/94	8.00%	30	22.7490	(885,276)	1,823,577	(70,822)	38,015	1,791,670	2,136,173	(344,503)	(1,229,779)
6/30/95	8.25%	30	18.4393	(1,229,779)	2,103,989	(101,457)	66,693	2,069,225	2,226,085	(156,860)	(1,386,639)
6/30/96	8.25%	30	18.4393	(1,386,639)	2,279,943	(114,398)	75,200	2,240,745	2,322,898	(82,153)	(1,468,792)
6/30/97	8.25%	30	18.4393	(1,468,792)	2,426,242	(121,175)	79,656	2,384,722	1,793,369	591,353	(877,439)
6/30/98	8.25%	30	18.4393	(877,439)	2,547,554	(72,389)	47,585	2,522,750	2,759,907	(237,157)	(1,114,596)
6/30/99	8.25%	30	18.4393	(1,114,596)	2,274,548	(91,954)	60,447	2,243,040	3,137,686	(894,646)	(2,009,242)
6/30/00	8.25%	30	18.4393	(2,009,242)	2,094,752	(165,762)	108,965	2,037,954	2,510,675	(472,721)	(2,481,963)
6/30/01	8.25%	30	20.1557	(2,481,963)	1,696,189	(204,762)	123,140	1,614,567	2,703,167	(1,088,600)	(3,570,563)
6/30/02	8.25%	30	20.1557	(3,570,563)	1,985,197	(294,571)	177,149	1,867,775	2,273,062	(405,287)	(3,975,850)
6/30/03	8.25%	30	20.1557	(3,975,850)	2,099,345	(328,008)	197,257	1,968,594	2,698,300	(729,706)	(4,705,556)
6/30/04	8.25%	29	19.6866	(4,705,556)	3,247,875	(388,208)	239,023	3,098,690	3,247,875	(149,185)	(4,854,741)
6/30/05	8.25%	28	19.2064	(4,854,741)	3,389,486	(400,516)	252,767	3,241,737	3,889,486	(647,749)	(5,502,490)
6/30/06	8.25%	27	15.8723	(5,502,490)	2,440,649	(453,955)	346,673	2,333,367	2,440,649	(107,282)	(5,609,772)
6/30/07	8.25%	26	15.5296	(5,609,772)	2,385,996	(462,806)	361,231	2,284,421	2,440,649	(156,228)	(5,766,000)
6/30/08	8.25%	25	14.8848	(5,766,000)	2,272,177	(475,695)	387,375	2,183,857	2,272,049	(88,192)	(5,854,192)
6/30/09	8.25%	24	14.5315	(5,854,192)	2,406,091	(482,971)	402,862	2,325,982	2,472,177	(146,195)	(6,000,387)
6/30/10	8.25%	23	14.1638	(6,000,387)	2,470,822	(495,032)	423,642	2,399,432	2,670,822	(271,390)	(6,271,777)
6/30/11	7.50%	22	14.1447	(6,271,777)	3,116,642	(470,383)	443,401	3,089,660	3,116,642	(26,982)	(6,298,759)
6/30/12	7.50%	21	13.7252	(6,298,759)	2,899,579	(472,407)	458,919	2,886,091	2,899,579	(13,488)	(6,312,247)
6/30/13	7.50%	20	13.2894	(6,312,247)	3,461,972	(473,419)	474,984	3,463,537	3,461,972	1,565	(6,310,682)

Note: Amortization factors used for periods prior to FY 2001 did not reflect future longevity or promotion pay increases.

Schedule D: Forecast of Plan Contributions and Benefit Payments

The following table discloses the estimated City contributions and benefits to be paid from the Plan over the next twenty years, under the current set of actuarial assumptions, except that this projection assumes that new entrants will enter the Plan each year. Underlying this so-called “open group” projection is the assumption that the current number of active members will remain constant throughout the projection period.

FY Ending 6/30	Normal Cost	Amortization of Unfunded AL	Estimated Employee Contributions	Annual Required Contribution	Benefit Payments	Funded %
2015	1,290,633	2,881,215	441,950	3,729,898	4,683,847	58.4%
2016	1,308,698	2,966,763	448,729	3,826,732	4,894,376	60.1%
2017	1,329,394	3,054,208	456,423	3,927,179	5,130,102	61.9%
2018	1,341,317	3,143,390	460,787	4,023,921	5,308,950	63.6%
2019	1,362,069	3,234,283	468,363	4,127,989	5,519,897	65.4%
2020	1,372,002	3,326,664	472,625	4,226,041	5,738,645	67.3%
2021	1,389,880	3,420,353	479,422	4,330,812	5,975,232	69.2%
2022	1,398,369	3,515,000	482,900	4,430,470	6,245,763	71.2%
2023	1,427,169	3,610,223	492,738	4,544,654	6,478,191	73.3%
2024	1,431,262	3,705,457	494,836	4,641,883	6,712,528	75.5%
2025	1,462,185	3,799,891	505,614	4,756,462	6,954,581	77.7%
2026	1,474,456	3,892,206	510,299	4,856,364	7,202,045	80.1%
2027	1,491,631	3,980,775	516,061	4,956,344	7,436,427	82.6%
2028	1,522,426	4,062,588	526,907	5,058,106	7,678,747	85.2%
2029	1,548,961	4,132,600	536,080	5,145,482	7,867,316	87.9%
2030	1,574,236	4,181,002	545,031	5,210,207	8,105,497	90.8%
2031	1,600,708	4,182,904	553,681	5,229,931	8,301,838	93.9%
2032	1,637,209	4,042,977	566,123	5,114,063	8,479,822	97.0%
2033	1,664,991	-	575,718	1,089,273	8,697,324	100.2%
2034	1,703,689	-	588,730	1,114,960	8,881,978	100.3%
2035	1,729,676	-	597,490	1,132,185	9,126,890	100.4%

Schedule E: Profiles of Population

E.1. Number of Active Participants by Age and Duration

ACTIVES								
MALE								
Age Group	0- 4	5-9	10-14	15-19	20-24	25-29	30+	Total
0- 19	0	0	0	0	0	0	0	0
20- 24	1	0	0	0	0	0	0	1
25- 29	8	1	0	0	0	0	0	9
30- 34	1	6	0	0	0	0	0	7
35- 39	3	3	9	0	0	0	0	15
40- 44	0	0	5	5	2	0	0	12
45- 49	0	0	2	1	5	3	0	11
50- 54	0	0	0	0	3	8	1	12
55- 59	0	0	0	0	0	0	2	2
60- 64	0	0	0	0	0	1	0	1
65+	0	0	0	0	0	1	0	1
TOTAL	13	10	16	6	10	13	3	71
			AVG AGE	41.41	AVG DUR	14.87		

ACTIVES								
FEMALE								
Age Group	0- 4	5-9	10-14	15-19	20-24	25-29	30+	Total
0- 19	0	0	0	0	0	0	0	0
20- 24	1	0	0	0	0	0	0	1
25- 29	0	0	0	0	0	0	0	0
30- 34	0	0	0	0	0	0	0	0
35- 39	0	0	0	0	0	0	0	0
40- 44	0	0	0	2	0	0	0	2
45- 49	0	0	0	1	0	0	0	1
50- 54	0	1	0	0	0	1	0	2
55- 59	0	0	0	0	0	0	0	0
60- 64	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0
TOTAL:	1	1	0	3	0	1	0	6
			AVG AGE	43.17	AVG DUR	13.17		

ACTIVES								
TOTAL								
Age Group	0- 4	5-9	10-14	15-19	20-24	25-29	30+	Total
0- 19	0	0	0	0	0	0	0	0
20- 24	2	0	0	0	0	0	0	2
25- 29	8	1	0	0	0	0	0	9
30- 34	1	6	0	0	0	0	0	7
35- 39	3	3	9	0	0	0	0	15
40- 44	0	0	5	7	2	0	0	14
45- 49	0	0	2	2	5	3	0	12
50- 54	0	1	0	0	3	9	1	14
55- 59	0	0	0	0	0	0	2	2
60- 64	0	0	0	0	0	1	0	1
65+	0	0	0	0	0	1	0	1
TOTAL:	14	11	16	9	10	14	3	77
			AVG AGE	41.55	AVG DUR	14.74		

E. 2. Number of Inactive Participants by Age and Annual Pension

RETIRED						
Age Group	MALE		FEMALE		TOTAL	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
40- 44	0	0	0	0	0	0
45- 49	2	76,442	1	41,111	3	117,553
50- 54	6	320,843	0	0	6	320,843
55- 59	13	623,423	0	0	13	623,423
60- 64	15	723,833	0	0	15	723,833
65- 69	16	793,563	0	0	16	793,563
70- 74	13	562,309	0	0	13	562,309
75- 79	6	277,267	0	0	6	277,267
80- 84	1	42,597	0	0	1	42,597
85- 89	6	278,154	0	0	6	278,154
90- 94	0	0	0	0	0	0
95- 99	0	0	0	0	0	0
100-104	0	0	0	0	0	0
105-109	0	0	0	0	0	0
110-114	0	0	0	0	0	0
115-119	0	0	0	0	0	0
120+	0	0	0	0	0	0
TOTAL	78	3,698,431	1	41,111	79	3,739,542
	AVG AGE:	66.1	AVG AGE:	48.0	AVG AGE:	65.8
	AVG PENSION:	47,416	AVG PENSION:	41,111	AVG PENSION:	47,336

DISABLED						
	MALE		FEMALE		TOTAL	
Age Group	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
20- 24	0	0	0	0	0	0
25- 29	0	0	0	0	0	0
30- 34	0	0	0	0	0	0
35- 39	0	0	0	0	0	0
40- 44	1	42,424	1	44,969	2	87,393
45- 49	4	166,818	0	0	4	166,818
50- 54	0	0	0	0	0	0
55- 59	2	45,343	0	0	2	45,343
60- 64	1	20,622	0	0	1	20,622
65- 69	0	0	1	41,820	1	41,820
70- 74	0	0	0	0	0	0
75- 79	0	0	0	0	0	0
80- 84	0	0	0	0	0	0
85- 89	1	6,160	0	0	1	6,160
90- 94	1	5,600	0	0	1	5,600
95- 99	0	0	0	0	0	0
100-104	0	0	0	0	0	0
105-109	0	0	0	0	0	0
110-114	0	0	0	0	0	0
115-119	0	0	0	0	0	0
120+	0	0	0	0	0	0
TOTAL	10	286,967	2	86,789	12	373,756
	AVG AGE:	58.9	AVG AGE:	54.5	AVG AGE:	58.2
	AVG PENSION:	28,697	AVG PENSION:	43,395	AVG PENSION:	31,146

BENEFICIARY						
Age Group	MALE		FEMALE		TOTAL	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
15- 19	0	0	0	0	0	0
20- 24	0	0	0	0	0	0
25- 29	0	0	0	0	0	0
30- 34	0	0	0	0	0	0
35- 39	0	0	0	0	0	0
40- 44	0	0	0	0	0	0
45- 49	0	0	1	9,259	1	9,259
50- 54	0	0	0	0	0	0
55- 59	0	0	2	30,960	2	30,960
60- 64	0	0	3	48,142	3	48,142
65- 69	0	0	4	94,223	4	94,223
70- 74	0	0	5	64,796	5	64,796
75- 79	0	0	2	61,801	2	61,801
80- 84	0	0	5	60,963	5	60,963
85- 89	0	0	5	71,199	5	71,199
90- 94	0	0	2	34,196	2	34,196
95- 99	0	0	0	0	0	0
100-104	0	0	0	0	0	0
105-109	0	0	0	0	0	0
110-114	0	0	0	0	0	0
115-119	0	0	0	0	0	0
120+	0	0	0	0	0	0
TOTAL	0	0	29	475,539	29	475,539
	AVG AGE:	0.0	AVG AGE:	74.3	AVG AGE:	74.3
	AVG PENSION:	0	AVG PENSION:	16,398	AVG PENSION:	16,398

VESTED TERMS						
Age Group	MALE		FEMALE		TOTAL	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
20- 24	0	0	0	0	0	0
25- 29	0	0	0	0	0	0
30- 34	0	0	0	0	0	0
35- 39	0	0	0	0	0	0
40- 44	0	0	0	0	0	0
45- 49	1	24,240	0	0	1	24,240
50- 54	0	0	0	0	0	0
55- 59	0	0	0	0	0	0
60- 64	0	0	0	0	0	0
65- 69	0	0	0	0	0	0
70- 74	0	0	0	0	0	0
75- 79	0	0	0	0	0	0
80- 84	0	0	0	0	0	0
85- 89	0	0	0	0	0	0
90- 94	0	0	0	0	0	0
95- 99	0	0	0	0	0	0
100-104	0	0	0	0	0	0
105-109	0	0	0	0	0	0
110-114	0	0	0	0	0	0
115-119	0	0	0	0	0	0
120+	0	0	0	0	0	0
TOTAL	1	24,240	0	0	1	24,240
	AVG AGE:	45.0	AVG AGE:	0	AVG AGE:	45.0
	AVG PENSION:	24,240	AVG PENSION:	0	AVG PENSION:	24,240

Schedule F: Actuarial Methods and Assumptions

Actuarial Cost Method:

Individual Entry Age Normal Actuarial Cost Method - Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The normal cost is the portion of the actuarial present value allocated to the valuation year. For inactive members, the actuarial accrued liability is equal to the present value of benefits. Inactive members do not have a normal cost. The portion of this actuarial present value not provided for at the valuation date by the sum of the actuarial value of the assets and actuarial present value of future normal costs is the unfunded actuarial accrued liability. The unfunded actuarial accrued liability represents the excess of the total actuarial accrued liability over the valuation assets.

Asset Valuation Method:

Market value, as reported by the City

Actuarial Assumptions:

1. *Interest*

7.50% per year, net of investment expenses

2. *Salary Increases*

3.00% per year plus longevity increases of 3.00% after seventh year of employment and 0.50% for each year of employment thereafter through the thirty-first year of employment. No longevity increases are assumed after the thirty-first year of employment.

3. *Cost of Living Increases*

3.00%

4. *Mortality*

a. *Healthy Members*

RP-2000 Combined Healthy Mortality Table, applied on a fully generational basis using Mortality Projection Scale AA. This table contains sufficient margin for improvement in life expectancy.

Mortality Assumptions Used in the Prior Valuation:

Mortality tables prescribed by the IRS for non-governmental plans, as specified in IRS Regulation 1.430(h)(3)-1, applied on a fully generational basis. These tables were deemed to include excessive margin for future mortality improvement.

b. Disabled Members

5. *Disability*

The 1985 Wyatt Pension Disability Table (unisex rates)

Rates of disability are based on an employee's age. Selected ages are listed below. 90% of disabilities are assumed to be service related.

<u>Attained Age</u>	<u>Probability of Disability</u>
25	0.17%
35	0.29%
45	0.72%
55	1.21%

6. *Withdrawal*

Rates of withdrawal are based on an employee's length of service. These rates were revised as of the July 1, 2012 valuation, based on Hay Group's experience study, as follows:

Withdrawal Rates		
Service	Prior	Current
< 1	3.00%	4.50%
1	2.25%	3.38%
2	2.00%	3.00%
3	1.75%	2.63%
4	1.50%	2.25%
5	1.25%	1.88%
6	1.00%	1.50%
7	0.75%	1.13%
8	0.50%	0.75%
9	0.25%	0.38%
10+	0	0.00%

7. Retirement Age

Hay Group conducted an experience study and rates of retirement were revised as of the July 1, 2012 valuation, as follows:

Years of Service	Prior	Current
20	5%	10%
21	2%	5%
22	2%	5%
23	2%	5%
24	2%	5%
25	40%	20%
26	20%	5%
27	20%	5%
28	20%	5%
29	20%	5%
30	20%	40%
31	20%	20%
32	20%	20%
33	20%	20%
34	20%	20%
35+	100%	100%

8. Administrative Expenses

Assumed to be paid by the Plan Sponsor outside the trust.

9. Benefit 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/Dependents

75% of active police are assumed to be married. For all participants, wives are assumed to be three years younger than their husbands. For the purposes of valuing the death benefit, unmarried members are assumed to have no dependent children at death.

11. Valuation Date

July 1, 2013.

Schedule G: Summary of Plan Provisions as of July 1, 2013

1. Effective Date

Most recent amendment July 1, 1995

2. Eligibility

All members of the police department who contribute to the pension fund.

3. Retirement

a. Eligibility

Members who have completed 20 years of service may retire.

b. Benefit Formula

The annual benefit at retirement is equal to the percentage of final annual salary specified in the table below, plus \$100 per year for each year of service over 25 (maximum \$1,000). For pension purposes, annual salary includes regular and longevity pay.

<u>Years of Service</u>	<u>Benefit as a Percentage of Final Annual Salary</u>
20	50.0%
21	52.5%
22	55.0%
23	57.5%
24	60.0%
25	62.5%
26	64.0%
27	65.5%
28	67.0%
29	68.5%
30 or more	70.0%

c. Commencement Date

Retirement benefits commence as of the first payroll period after retirement

d. Form of Payment

The annual benefit calculated in accordance with the formula in (b) above is payable monthly for the remainder of the retired member's life, with 67.5% of the member's benefit payable for the lifetime of the member's surviving spouse.

4. Vested Termination

a. Eligibility

Upon termination of employment after 10 years of service, a member is eligible for a benefit deferred to retirement age.

- b. Benefit Formula 2.5% of final annual salary multiplied by full years of service at termination.
- c. Commencement Date 20th anniversary of employment.
- d. Form of Payment Same as retirement.
- 5. **Disability Retirement**
 - a. Eligibility
 - i. Non-Service Related No benefit prior to completion of 7 years of service. A member who is disabled with between 7 and 20 years of service is eligible to receive disability retirement benefits.
 - ii. Service Related Retirement because of a job-related mental or physical incapacity.
 - b. Benefit Formula
 - i. Non-Service Related 50% of final annual salary.
 - ii. Service Related 66-2/3% of final annual salary.
 - c. Commencement Date Benefits commence as of the first payroll period after disability.
 - d. Form of Payment Same as retirement.
- 6. **Non-Vested Termination of Employment**

A member who leaves employment prior to completing 10 years of service will receive a lump sum payment of accumulated contributions.
- 7. **Death Before Retirement - Survivor Annuity Benefits**
 - a. Eligibility Death while actively employed.
 - b. Benefit Formula Surviving spouse (or, if none, dependent children) receives benefit of 67.5% of final annual salary, reduced pro rata if the deceased member had less than 20 years of service.
 - c. Commencement Date Benefits commence as of the first payroll period after death.
 - d. Form of Payment Monthly life annuity.
- 8. **Retiree Cost of Living Increase**

Pensions for retirees (but not disabled retirees or beneficiaries) are indexed to the negotiated pay increases for active police. Terminated vested members receive 3% annual increases after benefit commencement.
- 9. **Employee Contributions**

8% of salary.