JULY 1, 2011
POST RETIREMENT BENEFITS ANALYSIS
OF
THE CITY OF CRANSTON
FIRE AND POLICE

December, 2011

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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, 2011. The City provided employee data and premium information and financial information for the Public Safety Employees OPEB Plan.

Based on the foregoing, and information on the City's funding policy discussed below, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures.

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 Governmental 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. This assumes that the City's funding policy is to fully fund the ARC, as well as assuming that funds will be invested in a manner that would be expected to produce a return of 8.0%. The City has established a trust and initially started to build a balance. However, in the most recent fiscal year, contributions to the fund were less than required to meet current benefit costs, and assets have decreased. The City has informed us that it intends to fully fund the ARC in the future and to invest the funds in a manner consistent with the 8.0% assumption. We are using the 8.0% assumed investment return that the City has prescribed, and are not opining on the reasonableness of the use of that 8.0% assumption in this situation. In contrast, a discount rate appropriate for a Pay-As-You-Go funding policy would be about 3.5%.

In addition, the actuarial assumptions for mortality and healthcare trend were modified for this valuation.

Section II provides a summary of the principal valuation results. Section V provides a projection of funding amounts.

If all the assumptions of the July 1, 2010 valuation had been met, we would have expected the Actuarial Accrued Liability to increase from approximately $50.8 million to $52.3 million. The difference between the expected Actuarial Accrued Liability and the actual Actuarial Accrued Liability of $52.9 million is shown in the table below (in millions):

Expected AL @ 7/1/2011		$52.3
Favorable claims experience	(1.5)	
New mortality table	0.7	
New health care inflation assumption	2.9	
Reflect Healthcare Reform (Cadillac Tax)	1.0	
Other plan experience	(2.5)	
Actual AL @ 7/1/2011		52.9

The report was prepared under the supervision of the undersigned actuaries, who are Members of the American Academy of Actuaries and who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully Submitted,

BUCK CONSULTANTS, LLC

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SECTION II – REQUIRED INFORMATION

Fire and Police Results

Interest Rate	8.00%	8.00%
Increasing Rate	4.50%	4.00%
Years to Amortize	26	25

a) Actuarial valuation date		July 1, 2010		July 1, 2011
Discount rate		8.00%		8.00%
b) Actuarial value of assets	$	450,533	$	114,890
c) Actuarial accrued liability				
Active Participants	$	20,309,251	$	20,473,776
Retired Participants	$	30,455,859	$	32,460,408
Total	$	50,765,110	$	52,934,184
d) Unfunded actuarial accrued liability	$	50,314,577	$	52,819,294
e) Funded ratio (b. / c.)		0.89%		0.22%
f) Annual covered payroll		n/a		n/a
g) Unfunded actuarial accrued liability as percentage of covered payroll		n/a		n/a
h) Normal Cost for the fiscal year	$	1,255,135	$	1,202,566
i) Amortization of unfunded accrued actuarial liability for fiscal year (payments increasing 4.00% per year)	$	2,833,924	$	3,203,128
j) Annual Required Contribution (ARC) for the fiscal year as of July 1 (h. + i.)	$	4,089,059	$	4,405,694
k) Expected claims cost	$	3,723,772	$	3,599,351

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of employees included in valuation

Actives	318
Average Age: 42.01	
Average Service: 13.63	
Inactives	
Retirees	
< 65	190
> 65	20
Spouses	167
Retirees with Life Only	220
Grand Total	915

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

Annual Premiums for 2011

Healthmate – Fire	
Individual	7,937
Family	18,673
Healthmate – Police	
Individual	7,753
Family	18,673
Blue Cross Classic – Fire	
Individual	7,995
Family	20,436
Blue Cross Classic – Police	
Individual	7,995
Family	20,436
United Healthcare – Fire and Police	
Individual	9,287
Family	25,426

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) Adjustment to ARC	(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	3,500,000	616,018	1,754,680
2012	4,405,694	140,374	114,922	4,431,146			

* FY 2008 NOO balance does not match CAFR value of ($270,641). FY 2009 NOO balance does not match CAFR value of $500,677. FY 2010 Adjustment to ARC as published in CAFR includes adjustment to match the above.

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
07/01/2004	0	38,136,229	38,136,229	0.00%
07/01/2005	0	40,134,094	40,134,094	0.00%
07/01/2006	0	47,921,198	47,921,198	0.00%
07/01/2007	127,671	47,222,807	47,095,136	0.30%
07/01/2008	505,545	52,191,492	51,685,947	1.05%
07/01/2009	397,327	50,533,441	50,136,114	0.79%
07/01/2010	450,533	50,765,110	50,314,577	0.89%
07/01/2011	114,890	52,934,184	52,819,294	0.22%

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 4.0% for 25 years. The normal cost is expected to increase at the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid on July 1, at the beginning of the fiscal year.

Paragraph 12 of GASB 45 stipulates that valuations must be performed at least biennially. The following projections are intended only to illustrate long-term implications of Prefunding versus Pay-as-You-Go.

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
2012	1,202,566	3,203,128	4,405,694	3,599,351
2013	1,256,681	3,331,253	4,587,934	3,656,269
2014	1,313,232	3,464,503	4,777,735	3,789,022
2015	1,372,327	3,603,083	4,975,410	4,022,149
2016	1,434,082	3,747,206	5,181,288	4,355,049
2017	1,498,616	3,897,094	5,395,710	4,679,326
2018	1,566,054	4,052,978	5,619,032	4,942,471
2019	1,636,526	4,215,097	5,851,623	5,229,254
2020	1,710,170	4,383,701	6,093,871	5,720,423
2021	1,787,128	4,559,049	6,346,177	5,994,633
2022	1,867,549	4,741,411	6,608,960	6,243,321
2023	1,951,589	4,931,067	6,882,656	6,590,363
2024	2,039,411	5,128,310	7,167,721	6,873,991
2025	2,131,184	5,333,442	7,464,626	6,530,749
2026	2,227,087	5,546,780	7,773,867	6,535,628
2027	2,327,306	5,768,651	8,095,957	6,617,974
2028	2,432,035	5,999,397	8,431,432	6,480,437
2029	2,541,477	6,239,373	8,780,850	6,316,813
2030	2,655,843	6,488,948	9,144,791	6,115,516
2031	2,775,356	6,748,506	9,523,862	6,233,536
2032	2,900,247	7,018,446	9,918,693	5,783,132
2033	3,030,758	7,299,184	10,329,942	5,947,407
2034	3,167,142	7,591,151	10,758,293	5,995,594
2035	3,309,663	7,894,797	11,204,460	6,271,421
2036	3,458,598	8,210,589	11,669,187	6,020,635
2037	3,614,235	0	3,614,235	6,044,489
2038	3,776,876	0	3,776,876	5,419,383
2039	3,946,835	0	3,946,835	5,221,658
2040	4,124,443	0	4,124,443	4,848,447
2041	4,310,043	0	4,310,043	4,526,645
2042	4,503,995	0	4,503,995	4,589,737

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Interest 8.0%, net of investment expenses, as prescribed by the City

Actuarial Cost Method: Projected Unit Credit attributed to full eligibility at 20 years of service

Medical Care Trend:

Year	7/1/2011 Valuation Assumption	7/1/2010 Valuation Assumption
2011	8.0%	6.0%
2012	7.5%	5.0%
2013	7.0%	5.0%
2014	6.5%	5.0%
2015	6.0%	5.0%
2016	5.5%	5.0%
2017	5.0%	5.0%
2018 & later	4.5%	5.0%

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. As of the valuation date, 25 years remain. Amortization amounts are assumed to increase with overall salary increases of 4.0%, down from 4.5% assumed in the previous valuation.

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

Marital Status: 75% of male employees and 75% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

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 the retirees true benefit cost.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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 2011-2012 normalized to age 65 was $11,818. The amount was based on premium amounts weighted for current retiree enrollment elections. It is assumed that future retirees and current retirees now under age 65 will be Medicare eligible when they reach age 65, and thus Cranston subsidized coverage will cease. Monthly premium amounts were provided by the City.

Separations From Active Service:

No withdrawal is assumed prior to eligibility for benefits. Representative values of the assumed annual rates of disability and service retirement are as follows:

Annual Rates of

		Service Retirement	
Age	**Disability**	**Male**	**Female**
25	.17%		
30	.22		
35	.29		
40	.44		
45	.72	10.0%	10.0%
50	1.21	20.0	20.0
55	1.21	50.0	50.0
60	1.21	50.0	50.0
62	1.21	50.0	50.0
65		100.0	100.0

Mortality:

The RP-2000 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 3 years is used. Both the healthy and disabled mortality tables were projected to 2021 using scale AA. This is a change from the 2010 valuation where no mortality improvement projections were used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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 covered by the medical plan until age 65, at which time their coverage stops unless they are not eligible for Medicare.

Spouses' City paid benefits cease when the retiree reaches age 65 or at the death of retiree.

Retirees are offered several different medical plans including Classic Blue Cross, Health Mate HMO and United Health PPO. Dental insurance is available to retirees on a retiree pay all basis, thus is not reflected in this valuation.

Post-Age 65 Retirees:

Retirees over age 65 remain in the medical plan until death, if not eligible for Medicare. It is assumed that retirees who are now under age 65 will become eligible for Medicare when they reach age 65. Spouses are not covered for City paid post-age 65 benefits.

Some retirees are offered a Medicare supplement plan (Plan 65) on a retiree pay-all-basis, but the plan is assumed self-supporting, thus is not reflected in the valuation.

Employee Cost Sharing:

None.

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 – CONSIDERATION OF HEALTH CARE REFORM

Summary of Effects of Selected Provisions

Early Retiree Reinsurance Program – Effective 6/1/2010: The City of Cranston has not participated in the Early Retiree Reinsurance Program.

Removal of Lifetime Maximum: This does not apply since the current medical plans have no lifetime maximums.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. This does not apply since none of the current plans are Medicare Advantage plans.

Expansion of Child Coverage to Age 26: Cost of expansion of coverage to adult children is assumed to reflected in the premiums provided.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting 1/1/2011: There is no Medicare supplementary coverage included in the valuation, so these changes have no impact.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018: There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. We have estimated a small impact based on average premium amount without age adjustment and a 3.0% CPI assumption, and have included the estimated tax in the liabilities. The liability and normal cost attributable to the Cadillac tax are $978,243 and $64,847 respectively.

Other: We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

SCHEDULE D - 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.