



# **GASB 74/75 INTERIM ACTUARIAL VALUATION**

## **Fiscal Year Ending June 30, 2020**

# **TOWN OF WESTERLY POLICE**

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**December 4, 2020**

**Dyann Baker**  
**Town of Westerly Police**  
**45 Broad Street**  
**Westerly, RI 2891**

This report summarizes the interim GASB actuarial valuation for the Town of Westerly Police 2019/20 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 74 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions).

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate, other economic assumptions, and demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.



Suraj M. Datta, ASA, MAAA  
Consulting Actuary



Matt Sherertz, ASA, MAAA  
Valuation Actuary

# Executive Summary

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

### Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2020 compared to the prior fiscal year as shown in the Town's Notes to Financial Statement.

	As of June 30, 2019	As of June 30, 2020
<b>Total OPEB Liability</b>	\$ 17,918,314	\$ 18,719,415
<b>Actuarial Value of Assets</b>	\$ (5,399,312)	\$ (6,142,908)
<b>Net OPEB Liability</b>	\$ 12,519,002	\$ 12,576,507
<b>Funded Ratio</b>	30.1%	32.8%

	FY 2018/19	FY 2019/20
<b>OPEB Expense</b>	\$ (1,278,318)	\$ (1,271,663)
<b>Annual Employer Contributions</b>	\$ 1,535,800	\$ 1,252,893
<b>Actuarially Determined Contribution</b>	\$ 1,365,184	\$ 1,252,893

	As of June 30, 2019	As of June 30, 2020
<b>Discount Rate</b>	7.00%	7.00%
<b>Expected Return on Assets</b>	7.00%	7.00%

# GASB Disclosures

Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

## Schedule of Changes in Net OPEB Liability and Related Ratios

OPEB Liability	FY 2019/20	FY 2018/19	FY 2017/18
<b>Total OPEB Liability</b>			
Total OPEB Liability - beginning of year	\$ 17,918,314	\$ 26,904,189	\$ 30,748,509
Service cost	166,945	298,837	341,151
Interest	1,238,966	1,100,334	1,106,276
Change of benefit terms	0	0	0
Changes in assumptions	0	(8,040,490)	(2,185,085)
Differences between expected and actual experience	179,938	(1,605,924)	(2,380,680)
Benefit payments	(784,748)	(738,632)	(725,982)
Net change in total OPEB liability	\$ 801,101	\$ (8,985,875)	\$ (3,844,320)
Total OPEB Liability - end of year	\$ 18,719,415	\$ 17,918,314	\$ 26,904,189
<b>Plan Fiduciary Net Position</b>			
Plan fiduciary net position - beginning of year	\$ 5,399,574	\$ 4,189,894	\$ 2,800,049
Contributions - employer	1,252,893	1,535,800	1,912,794
Contributions - active employees	0	0	0
Net investment income	325,129	447,825	239,784
Benefit payments	(784,748)	(738,632)	(725,982)
Trust administrative expenses	(49,940)	(35,575)	(37,013)
Net change in plan fiduciary net position	\$ 743,334	\$ 1,209,418	\$ 1,389,583
Plan fiduciary net position - end of year	\$ 6,142,908	\$ 5,399,312	\$ 4,189,632
<b>Net OPEB Liability - end of year</b>	<b>\$ 12,576,507</b>	<b>\$ 12,519,002</b>	<b>\$ 22,714,557</b>
Plan fiduciary net position as % of total OPEB liability	32.8%	30.1%	15.6%
Covered employee payroll	\$ 3,603,494	\$ 3,463,796	\$ 3,778,768
Net OPEB liability as % of covered payroll	349.0%	361.4%	601.1%

\* 2018/19 and 2019/20 beginning of year assets have been adjusted by \$262 to match the Town's records  
 Administrative expenses for FY 2019/20 include \$3,298 in "miscellaneous expenses"

# GASB Disclosures

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

### Schedule of Employer Contributions

The Actuarially Determined Contributions (ADC) shown below are based on the Annual Required Contribution (ARC) calculated in prior GASB 45 actuarial valuations as shown in the Town's financial statements.

	FY 2019/20	FY 2018/19	FY 2017/18	FY 2016/17	FY 2015/16
Actuarially Determined Contribution (ADC)	\$ 1,252,893	\$ 1,365,184	\$ 1,501,065	\$ 1,912,794	\$ 2,784,810
Contributions in relation to the ADC	1,252,893	1,535,800	1,912,794	400,000	386,000
Contribution deficiency/(excess)	\$ 0	\$ (170,616)	\$ (411,729)	\$ 1,512,794	\$ 2,398,810
Covered employee payroll	\$ 3,603,494	\$ 3,463,796	\$ 3,778,768	\$ 3,668,707	\$ 3,406,417
Contribution as a % of covered payroll	34.8%	44.3%	50.6%	10.9%	11.3%

	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12	FY 2010/11
Actuarially Determined Contribution (ADC)	\$ 936,800	\$ 966,300	\$ 922,800	\$ 907,530	\$ 464,700
Contributions in relation to the ADC	429,600	429,600	467,920	685,328	425,000
Contribution deficiency/(excess)	\$ 507,200	\$ 536,700	\$ 454,880	\$ 222,202	\$ 39,700
Covered employee payroll	\$ 3,307,201	\$ 3,384,654	\$ 3,039,511	\$ 2,847,036	\$ 2,838,895
Contribution as a % of covered payroll	13.0%	12.7%	15.4%	24.1%	15.0%

# GASB Disclosures

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

### OPEB Expense

OPEB Expense	FY 2019/20	FY 2018/19
Discount Rate		
Beginning of year	7.00%	4.10%
End of year	7.00%	7.00%
Service cost	\$ 166,945	\$ 298,837
Interest	1,238,966	1,100,334
Change of benefit terms	0	0
Projected earnings on OPEB plan investments	(392,360)	(319,479)
Reduction for contributions from active employees	0	0
OPEB plan administrative expenses	49,940	35,575
Current period recognition of deferred outflows / (inflows) of resources		
Differences between expected and actual experience	\$ (619,449)	\$ (664,434)
Changes in assumptions	(1,704,263)	(1,704,263)
Net difference between projected and actual earnings on OPEB plan investments	(11,442)	(24,888)
Total current period recognition	\$ (2,335,154)	\$ (2,393,585)
Total OPEB expense	\$ (1,271,663)	\$ (1,278,318)

\* Administrative expenses for FY 2019/20 include \$3,298 in "miscellaneous expenses."



# GASB Disclosures

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

### Deferred Outflows / (Inflows) of Resources

Deferred Outflows / (Inflows) of Resources represents the following items that have not been recognized in the OPEB Expense:

1. Differences between expected and actual experience of the OPEB plan
2. Changes of assumptions
3. Differences between projected and actual earnings in OPEB plan investments (for funded plans only)

The initial amortization period for the first two items noted above is based on expected future service lives while the difference between the projected and actual earnings in OPEB plan investment is amortized over five years. All balances are amortized linearly on a principal only basis and new bases will be created annually for each of the items above.

Differences between expected and actual experience for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2020
June 30, 2018	\$ (2,380,680)	6	\$ (396,780)	\$ (1,190,340)
June 30, 2019	\$ (1,605,924)	6	\$ (267,654)	\$ (1,070,616)
June 30, 2020	\$ 179,938	4	\$ 44,985	\$ 134,953

Changes in assumptions for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2020
June 30, 2018	\$ (2,185,085)	6	\$ (364,181)	\$ (1,092,542)
June 30, 2019	\$ (8,040,490)	6	\$ (1,340,082)	\$ (5,360,326)
June 30, 2020	\$ 0	N/A	\$ 0	\$ 0

Net Difference between projected and actual earnings in OPEB plan investments for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2020
June 30, 2018	\$ 4,171	5	\$ 834	\$ 1,669
June 30, 2019	\$ (128,608)	5	\$ (25,722)	\$ (77,164)
June 30, 2020	\$ 67,231	5	\$ 13,446	\$ 53,785

# GASB Disclosures

Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

## Deferred Outflows / (Inflows) of Resources (Continued)

As of fiscal year ending June 30, 2020	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 134,953	\$ (2,260,956)
Changes in assumptions	0	(6,452,868)
Net difference between projected and actual earnings in OPEB plan investments	55,454	(77,164)
<b>Total</b>	<b>\$ 190,407</b>	<b>\$ (8,790,988)</b>

## Annual Amortization of Deferred Outflows / (Inflows)

The balances as of June 30, 2020 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

FYE	Balance
2021	\$ (2,335,154)
2022	\$ (2,335,153)
2023	\$ (2,335,987)
2024	\$ (1,594,287)
2025	\$ 0
Thereafter	\$ 0

# GASB Disclosures

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

### Sensitivity Results

The following presents the Net OPEB Liability as of June 30, 2020, calculated using the discount rate assumed and what it would be using a 1% higher and 1% lower discount rate.

- The current discount rate is 7.00%.
- The 1% decrease in discount rate would be 6.00%.
- The 1% increase in discount rate would be 8.00%.

As of June 30, 2020	Net OPEB Liability
1% Decrease	\$ 14,817,520
Current Discount Rate	\$ 12,576,507
1% Increase	\$ 10,707,326

The following presents the Net OPEB Liability as of June 30, 2020, using the health care trend rates assumed and what it would be using 1% higher and 1% lower health care trend rates.

- The current health care trend rate starts at an initial rate of 8.00%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 7.00%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 9.00%, decreasing to an ultimate rate of 5.50%.

As of June 30, 2020	Net OPEB Liability
1% Decrease	\$ 10,605,763
Current Trend Rates	\$ 12,576,507
1% Increase	\$ 14,933,568

# GASB Disclosures

Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

## Asset Information

Asset Breakdown	FY 2018/19	FY 2019/20
<b>Assets</b>		
Cash and deposits	\$ 235,935	\$ 289,967
Securities lending cash collateral	0	0
Total cash	\$ 235,935	\$ 289,967
Receivables		
Transfer due from Pension Fund	\$ 57,225	\$ 0
Accrued interest	16,047	14,956
Total receivables	\$ 73,272	\$ 14,956
Investments		
Fixed income	\$ 2,608,019	\$ 2,815,014
Equities	2,671,691	3,219,763
Mutual Funds	0	0
Total investments	\$ 5,279,710	\$ 6,034,777
Total Assets	\$ 5,588,917	\$ 6,339,700
<b>Liabilities</b>		
Payables		
Investment management fees	\$ 0	\$ 0
Benefit Payments Due From Pension Fund	(189,605)	(196,792)
Total liabilities	\$ (189,605)	\$ (196,792)
<b>Net Position Restricted to OPEB</b>	<b>\$ 5,399,312</b>	<b>\$ 6,142,908</b>

\* 2018/19 and 2019/20 beginning of year assets have been adjusted by \$262 to match the Town's records  
 Administrative expenses for FY 2019/20 include \$3,298 in "miscellaneous expenses"

# GASB Disclosures

Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

## Asset Information (Continued)

Asset Reconciliation	FY 2018/19	FY 2019/20
<b>Additions</b>		
Contributions Received		
Employer	\$ 1,535,800	\$ 1,252,893
Active employees	0	0
<b>Total contributions</b>	<b>\$ 1,535,800</b>	<b>\$ 1,252,893</b>
Investment Income		
Net increase in fair value of investments	\$ 317,451	\$ 326,221
Accrued Income	130,374	(1,092)
Investment expense, other than from securities lending	0	0
Securities lending income	0	0
Securities lending expense	0	0
<b>Net investment income</b>	<b>\$ 447,825</b>	<b>\$ 325,129</b>
<b>Total additions</b>	<b>\$ 1,983,625</b>	<b>\$ 1,578,022</b>
<b>Deductions</b>		
Benefit payments	\$ 738,632	\$ 784,748
Administrative expenses	35,575	49,940
Other	0	0
<b>Total deductions</b>	<b>\$ 774,207</b>	<b>\$ 834,688</b>
<b>Net increase in net position</b>	<b>\$ 1,209,418</b>	<b>\$ 743,334</b>
<b>Net position restricted to OPEB</b>		
Beginning of year	\$ 4,189,894	\$ 5,399,574
End of year	\$ 5,399,312	\$ 6,142,908

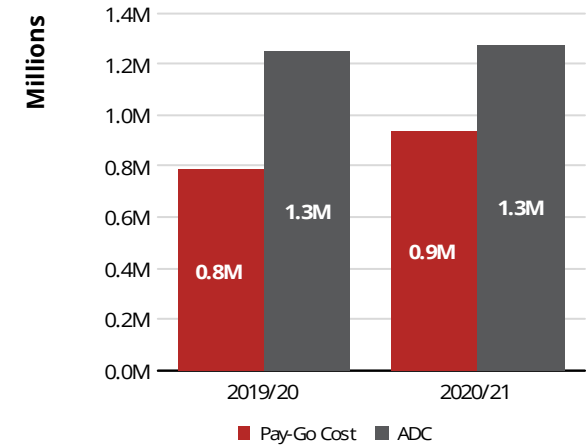
\* 2018/19 and 2019/20 beginning of year assets have been adjusted by \$262 to match the Town's records  
Administrative expenses for FY 2019/20 include \$3,298 in "miscellaneous expenses"

# Actuarially Determined Contributions

Town of Westerly Police Interim GASB 74/75 Valuation For Fiscal Year Ending June 30, 2020

	FY 2019/20		FY 2020/21	
Discount rate (Funding)	7.00%		7.00%	
Payroll growth factor used for amortization	N/A		N/A	
Actuarial cost method	Entry Age Normal Level % of Salary		Entry Age Normal Level % of Salary	
Amortization type	Level Dollar		Level Dollar	
Amortization period (years)	25		24	
Actuarial Accrued Liability (AAL) - beginning of year	\$	17,918,314	\$	18,719,415
Actuarial Value of Assets (AVA) - beginning of year		(5,399,312)		(6,142,908)
Unfunded AAL - beginning of year	\$	12,519,002	\$	12,576,507
Normal Cost	\$	166,945	\$	167,514
Amortization of Unfunded AAL		1,003,983		1,024,798
Total normal cost plus amortization	\$	1,170,928	\$	1,192,312
Interest to end of year		81,965		83,462
Actuarially Determined Contribution - Preliminary	\$	1,252,893	\$	1,275,774
Expected Benefit Payments		784,748		934,712
<b>Actuarially Determined Contribution - Final</b>	<b>\$</b>	<b>1,252,893</b>	<b>\$</b>	<b>1,275,774</b>

## Cash Vs Accrual Accounting



**Actuarially Determined Contribution (ADC)** is the target or recommended contribution to a defined benefit OPEB plan, which if paid on an ongoing basis, will provide sufficient resources to fund future costs for services to be earned and liabilities attributed to past services. This is typically higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

# Discussion of Discount Rates

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

Under GASB 74, the discount rate used in valuing OPEB liabilities for funded plans as of the Measurement Date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

For the current valuation:

1. The long-term expected rate of return on OPEB plan investment is assumed to be 7.00%. The expected future real rates of return are shown below. Inflation is expected to be 2.00%. The best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30, 2020 are summarized in the following table.
2. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.

Asset Class	Target Allocation	L/T Expected Real ROR
US Large Cap Equity	42%	4.50%
US Mid/Small Cap Equity	10%	5.25%
Int'l Developed Equity	6%	5.00%
Int'l Emerging Equity	4%	5.75%
Core Fixed Income	29%	1.50%
High Yield Fixed Income	5%	2.75%
REITs	3%	4.75%
Cash & Cash Equivalents	1%	0.00%

Yield as of	July 1, 2019	June 30, 2020
Bond Buyer Go 20-Bond Municipal Bond Index	3.51%	2.21%
S&P Municipal Bond 20-Year High Grade Rate Index	2.79%	2.66%
Fidelity 20-Year Go Municipal Bond Index	3.13%	2.45%
Bond Index Range	2.79% - 3.51%	2.21% - 2.66%

3. With the expectation that the Town will contribute the actuarially determined contribution annually, the Trust is expected to be sufficient to pay for all future projected benefit payments and there will not be a cross-over point. As such, the final equivalent single discount rate used for this year's valuation is 7.00% as of June 30, 2020.

# Summary of Key Actuarial Assumptions

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## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

For a complete summary of actuarial methods and assumptions, refer to the GASB 74/75 actuarial valuation report for the fiscal year ending June 30, 2019.

### Measurement Date

For fiscal year ending June 30, 2020, June 30, 2020 measurement date was used.

### Actuarial Valuation Date

July 1, 2019 with results actuarially projected on a “no gain / no loss” basis to get to the June 30, 2020 measurement date. Liabilities as of July 1, 2019 are based on an actuarial valuation date of July 1, 2019.

### Discount Rate

7.00% as of July 1, 2019 and June 30, 2020 for both accounting and funding disclosure purposes. Refer to the Discussion of Discount Rates section for more information on selection of the discount rate.

### Payroll Growth

3.00% per year for general wage inflation plus merit / productivity increases as shown below.

YOS	Rates
0	12.00%
5	6.00%
10	2.25%
15	1.25%

### Inflation Rate

2.00% per year

### Cost Method

Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where:

- Service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant’s benefit at retirement; and
- Annual Service Cost is a constant percentage of the participant’s salary that is assumed to increase according to the Payroll Growth.



# Summary of Key Actuarial Assumptions

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Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

## Health Care Trend Rates

Annual trend rates by benefit are as shown below:

<b>FYE</b>	<b>Medical / Rx</b>	<b>Dental</b>	<b>Part B</b>
2021	8.00%	4.50%	5.00%
2022	7.50%	4.25%	5.00%
2023	7.00%	4.00%	5.00%
2024	6.50%	3.75%	5.00%
2025	6.00%	3.50%	5.00%
2026	5.50%	3.50%	5.00%
2027	5.00%	3.50%	5.00%
2028+	4.50%	3.50%	5.00%

## Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

# Actuary's Notes

## Town of Westerly Police Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2020

There have been no substantive plan provision changes since the last full valuation, which was for the fiscal year ending June 30, 2019. For a complete summary of plan provisions, refer to the GASB 74/75 actuarial valuation report for the fiscal year ending June 30, 2019.

Interim year valuation results have been projected from the prior year's valuation, with adjustments for actual premium and contribution increases from 2019/20 to 2020/21.

### Premium Rates

Monthly premium rates effective on July 1, 2019 and 2020 by plan are as shown below.

Health Plans	Eff. 7/1/2019		Eff. 7/1/2020	
	EE	EE + Sp	EE	EE + Sp
<b>Pre-65 Medical/Rx</b>				
BCBS Plan (Pre-7/1/1993)	\$ 986.50	\$ 2,462.14	\$ 1,038.47	\$ 2,596.36
HDHP Plan (Post-7/1/1993)	\$ 760.79	\$ 1,892.84	\$ 800.18	\$ 1,995.33
<b>Post-65 Medical/Rx</b>				
	Rate/person	Admin/person	Rate/person	Admin/person
Plan 65 (post-65)	\$ 591.71	\$ 183.38	\$ 710.59	\$ 185.93
<b>Dental Plans</b>				
	EE	EE + Sp	EE	EE + Sp
Dental (Pre-7/1/1993)	\$ 36.50	\$ 123.59	\$ 36.50	\$ 123.59
Dental (Post-7/1/1993)	\$ 36.50	\$ 123.59	\$ 36.50	\$ 123.59