

The logo for nyhart, featuring a dark grey vertical bar on the left and a horizontal bar extending to the right. The word "nyhart" is written in white lowercase letters on the horizontal bar.

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***Town of Cumberland, RI Police
Retirement Plan***

*June 30, 2015
GASB Nos. 67 & 68 Report*

Town of Cumberland, RI Police Retirement Plan
GASB Nos. 67 & 68 Report as of Fiscal Year Ending June 30, 2015
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This report is prepared in accordance with our understanding of GASB Nos. 67 & 68 for the purpose of disclosing pension plans in financial statements. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report.

The information presented in this report is based on:

- the actuarial assumptions included in this report;
- the plan provisions;
- participant information furnished to us by the Plan Administrator;
- asset information furnished to us by the Plan Trustee.

We have reviewed the provided data for reasonableness when compared to prior information provided, but have not audited the data. Where relevant data may be missing, we may have made assumptions we believe are reasonable for the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided. Any errors in the data provided may result in a different result than those provided in this report.

The interest rate, other economic assumptions, and demographic assumptions have been selected by the plan sponsor with our recommendations. The assumptions used, in our opinion, are reasonable and represent a reasonable expectation of future experience under the plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

A summary of any assumptions not included in this report, the plan provisions and the participant information is included in the Actuarial Valuation Report for funding purposes.

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 or additional cost or contribution requirements based on the plan's funded status); 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.

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Actuarial Certification

The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

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 which could materially affect the results contained herein.

Neither Nyhart nor any of its employees have any relationships with the plan or plan sponsor which could impair or appear to impair the objectivity of this report.

Nyhart



Matt M. Sherertz, ASA, EA



Tayt V. Odom, FSA, EA

08/25/2015

**Town of Cumberland, RI Police Retirement Plan
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Summary**

Net Pension Liability

The components of the net pension liability at June 30

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability	\$ 32,192,366	\$ 31,046,330
Plan fiduciary net position	(13,108,042)	(12,214,432)
Net pension liability	\$ 19,084,324	\$ 18,831,898
Plan fiduciary net position as a percent of the total pension liability	40.72%	39.34%
Pension Expense for the Fiscal Year Ended June 30	\$ 1,825,884	

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions

Inflation	2.00%	2.00%
Salary increases, including inflation	3.50%	3.50%
Investment rate of return, including inflation, and net of investment expense	7.50%	7.50%

Plan Membership

The total pension liability was determined based on the plan membership as of July 1

	<u>2014</u>	<u>2014</u>
Inactive plan members and beneficiaries currently receiving benefits	72	72
Inactive plan members entitled to but not yet receiving benefits	0	0
Active plan members	43	43
Total members	115	115

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Statement of Fiduciary Net Position

Assets	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Cash and deposits	\$ 509,986	\$ 405,765
Securities lending cash collateral	0	0
Total cash	\$ 509,986	\$ 405,765
Receivables:		
Contributions	\$ 0	\$ 0
Due from broker for investments sold	0	0
Investment income	45,062	41,523
Other	0	0
Total receivables	\$ 45,062	\$ 41,523
Investments:		
Domestic Fixed Income	\$ 4,618,455	\$ 4,419,790
Domestic Equity	7,912,048	7,227,118
International Equity	142,596	130,191
Total investments	\$ 12,673,099	\$ 11,777,099
Total assets	\$ 13,228,147	\$ 12,224,387
Liabilities		
Payables:		
Investment management fees	\$ 0	\$ 0
Due to broker for investments purchased	70,744	0
Collateral payable for securities lending	0	0
Other	49,361	9,955
Total liabilities	\$ 120,105	\$ 9,955
Net position restricted for pensions	\$ 13,108,042	\$ 12,214,432

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Statement of Changes in Fiduciary Net Position

	June 30, 2015	June 30, 2014
Additions		
Contributions:		
Employer	\$ 1,831,342	\$ 2,064,871
Member	260,793	185,877
Nonemployer contributing entity	0	0
Total contributions	<u>\$ 2,092,135</u>	<u>\$ 2,250,748</u>
Investment income:		
Net increase in fair value of investments	\$ 319,845	\$ 1,061,515
Interest and dividends	353,472	324,383
Less investment expense, other than from securities lending	<u>(67,326)</u>	<u>(65,117)</u>
Net income other than from securities lending	\$ 605,991	\$ 1,320,781
Securities lending income	0	0
Less securities lending expense	0	0
Net income from securities lending	<u>\$ 0</u>	<u>\$ 0</u>
Net investment income	\$ 605,991	\$ 1,320,781
Other	0	0
Total additions	<u>\$ 2,698,126</u>	<u>\$ 3,571,529</u>
Deductions		
Benefit payments, including refunds of member contributions	\$ 1,765,110	\$ 1,656,011
Administrative expense	39,406	9,955
Other	0	0
Total deductions	<u>\$ 1,804,516</u>	<u>\$ 1,665,966</u>
Net increase in net position	<u>\$ 893,610</u>	<u>\$ 1,905,563</u>
Net position restricted for pensions		
Beginning of year	12,214,432	10,308,869
End of year	<u>\$ 13,108,042</u>	<u>\$ 12,214,432</u>

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 Schedule of Changes in Net Pension Liability and Related Ratios

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability		
Service cost	\$ 603,593	\$ 625,409
Interest	2,307,553	2,203,726
Changes of benefit terms	0	0
Differences between expected and actual experience	0	287,596
Changes of assumptions	0	0
Benefit payments, including refunds of member contributions	<u>(1,765,110)</u>	<u>(1,656,011)</u>
Net change in total pension liability	1,146,036	1,460,720
Total pension liability - beginning	<u>31,046,330</u>	<u>29,585,610</u>
Total pension liability - ending (a)	\$ 32,192,366	\$ 31,046,330
Plan fiduciary net position		
Contributions - employer	\$ 1,831,342	\$ 2,064,871
Contributions - member	260,793	185,877
Contributions - nonemployer contributing member	0	0
Net investment income	605,991	1,320,781
Benefit payments, including refunds of member contributions	<u>(1,765,110)</u>	<u>(1,656,011)</u>
Administrative expenses	<u>(39,406)</u>	<u>(9,955)</u>
Other	0	0
Net change in plan fiduciary net position	\$ 893,610	\$ 1,905,563
Plan fiduciary net position - beginning	<u>12,214,432</u>	<u>10,308,869</u>
Plan fiduciary net position - ending (b)	\$ 13,108,042	\$ 12,214,432
Net pension liability - ending (a) - (b)	\$ 19,084,324	\$ 18,831,898
Plan fiduciary net position as a percentage of the total pension liability	40.72%	39.34%
Covered-employee payroll	\$ 2,686,120	\$ 2,633,451
Net pension liability as percentage of covered-employee payroll	710.48%	715.10%

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 Pension Expense

Fiscal year ending	<u>June 30, 2015</u>
Service cost	\$ 603,593
Interest on total pension liability	2,307,553
Projected earnings on pension plan investments	(928,346)
Changes of benefit terms	0
Employee contributions	(260,793)
Pension plan administrative expense	39,406
Other changes	0
Current period recognition of deferred outflows/(inflows) of resources	
Differences between Expected & Actual Experience in measurement of the Total Pension Liability	\$ 0
Changes of assumptions	0
Differences between Projected & Actual Earnings on Pension Plan Investments	64,471
Total	<u>\$ 1,825,884</u>

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Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Differences between expected and actuarial experience in measurement of the total pension liability for fiscal year ending:	Initial Balance	Initial Amortization Period	Annual Recognition	06/30/2015 Balance
June 30, 2015	\$ 0	5	\$ 0	\$ 0
			\$ 0	\$ 0

Changes in assumptions for fiscal year ending:	Initial Balance	Initial Amortization Period	Annual Recognition	06/30/2015 Balance
June 30, 2015	\$ 0	5	\$ 0	\$ 0
			\$ 0	\$ 0

Differences between projected and actual earnings on pension plan investments for fiscal year ending:	Initial Balance	Initial Amortization Period	Annual Recognition	06/30/2015 Balance
June 30, 2015	\$ 322,355	5	\$ 64,471	\$ 257,884
			\$ 64,471	\$ 257,884

The balances as of June 30, 2015 of the deferred outflows/(inflows) of resources will be recognized in pension expense for the fiscal year ending June 30.

2016	\$ 64,471
2017	\$ 64,471
2018	\$ 64,471
2019	\$ 64,471
2020	\$ 0
Thereafter	\$ 0

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Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Domestic Fixed Income	38.0%	2.21%
Domestic Equity	50.0%	7.35%
International Equity	10.0%	7.84%
Cash	2.0%	0.25%
Total	100.0%	

Long-term expected rate of return is 7.50%.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 23,005,354	\$ 19,084,324	\$ 15,589,022

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 Schedule of Contributions

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 1,997,828	\$ 1,980,631	\$ 1,986,232	\$ 1,650,489	\$ 1,507,130
Contributions in relation to the actuarially determined contribution	1,831,342	2,064,871	1,650,000	1,400,000	1,000,000
Contribution deficiency (excess)	\$ 166,486	\$ (84,240)	\$ 336,232	\$ 250,489	\$ 507,130
Covered-employee payroll	\$ 2,686,120	\$ 2,633,451	\$ 2,651,185	\$ 2,511,260	\$ 2,538,594
Contributions as a percentage of covered-employee payroll	68.18%	78.41%	62.24%	55.75%	39.39%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 1,315,293	\$ 1,135,722	\$ 923,078	\$ 737,697	\$ 806,797
Contributions in relation to the actuarially determined contribution	211,425	1,135,722	923,078	737,697	811,871
Contribution deficiency (excess)	\$ 1,103,868	\$ 0	\$ 0	\$ 0	\$ (5,074)
Covered-employee payroll	\$ 2,839,887	\$ 2,873,991	\$ 2,586,734	\$ 2,580,899	\$ 2,445,466
Contributions as a percentage of covered-employee payroll	7.44%	39.52%	35.69%	28.58%	33.20%

The total pension liability as of June 30, 2015 was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Method
Asset Valuation Method	Market Value of Assets
Interest Rates	
Discount Rate	7.50%
Expected Long Term Rate of Return	7.50%
Municipal Bond Rate	N/A
Inflation	2.00%
Annual Pay Increases	3.50%
Measurement Date	June 30, 2015, based on a valuation date of June 30, 2014
Participant Data	July 1, 2014 data is projected forward to the measurement date and adjusted for any material events
Cost of Living Increases	3.00% non-compounded from age 57 for retirement on or after July 1, 1992 No COLA for retirement before July 1, 1992
Mortality Rates	
Healthy	RP-2000 Combined Mortality Table for males and females with generational mortality projections per Scale AA
Disabled	RP-2000 Combined Mortality Table for males and females with generational mortality projections per Scale AA

Retirement Rates

Officers hired on or before 7/1/2013:	<u>Service</u>	<u>Rate</u>
	20	70%
	21-24	10%
	25	70%
	26-29	10%
	30	100%

Officers hired after 7/1/2013: 100% at age 55 with 25 years of service

All other assumptions

As described in the assumptions section of the actuarially determined contribution

Experience Study

The most recent experience study was completed in March 2015, taking into account five years of data experience

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 Actuarial Assumptions for Actuarially Determined Contributions

Actuarial Cost Method	Entry Age Method	
Asset Valuation Method	Fair market value of assets on the measurement date adjusted for a five year phase-in of gains and losses of plan assets	
Amortization Method	Closed 20 year level percent of pay amortization of Unfunded Actuarial Accrued Liability; for this purpose, pay is assumed to grow at 3.5% annually	
Interest Rates	7.50% net of investment expenses	
Inflation	2.00%	
Annual Pay Increases	3.50%	
Cost of Living Increases	3.00% non-compounded from age 57 for retirement on or after July 1, 1992 No COLA for retirement before July 1, 1992	
Mortality Rates		
Healthy	RP-2000 Combined Mortality Table for males and females with generational mortality projections per Scale AA	
Disabled	RP-2000 Combined Mortality Table for males and females with generational mortality projections per Scale AA	
Retirement Rates		
Officers hired on or before 7/1/2013:	<u>Service</u>	<u>Rate</u>
	20	70%
	21-24	10%
	25	70%
	26-29	10%
	30	100%
Officers hired after 7/1/2013:	100% at age 55 with 25 years of service	

The plan provisions used for measuring liabilities in this report match those shown in the July 1, 2014 funding valuation report.