

REPORT OF THE ACTUARY

Fiscal Year Ended June 30, 1966

A valuation of the system was completed as of June 30, 1966. The results of this valuation were satisfactory. All basic factors bearing upon the operations of the system and its progress indicate that the Municipal Employees' Retirement System is showing steady improvement in its financial condition. All such factors point towards constructive and sound progress.

Statistics pertinent to the retired members are as follows:

	<u>Male</u>	<u>Female</u>
Number on pension roll	232	39
Annual payments	\$296,071.07	\$49,460.19
Average annual payment	\$1,276.17	\$1,268.21
Average age	70.3	70.4
Actuarial reserve requirements	\$2,683,846.00	\$526,522.00

Actuarial reserve requirements on account of the foregoing pensioners amounted to \$3,210,368.00. This compares with the balance in the Retirement Reserve at June 30, 1966 of \$3,491,043.83. This illustrates financial solvency in respect to the actuarial reserve required to pay out the retirement

allowances entered upon according to the applicable mortality standards and interest rate assumption of 3-1/2% per annum.

OBLIGATIONS OF MUNICIPALITIES

In subscribing to coverage in the system on behalf of their employees, the participating municipalities have assumed obligations consisting of: (a) the accrued liability for service rendered by the members prior to the effective date of the participation in the system, referred to as "prior service"; and (b) the accruing cost for future service commonly referred to as "normal" or "current service" cost.

The liability for prior service in the case of each municipality was determined just prior to participation in the system upon the basis of the service rendered by the assumed membership. A prior service contribution rate was fixed as a percentage of payroll which would be sufficient to amortize the accrued liability over a period of 25 years from the effective date of participation as required by law.

The current service or normal cost was calculated upon the basis of total membership giving full effect to the service characteristics of each municipality. This rate also was fixed as a percentage of total payroll. The rate is to be applied by each municipality in determining the amount of its contributions to

the system for such service, additional to the amortization payment on account of the accrued liability.

The prior service and current service rates of contribution are given below for the several participating municipalities:

<u>Municipal Code No.</u>	<u>Name of Municipality</u>	<u>Prior Service Contribution Rate - 7/1/66</u>	<u>Current Service Rate 7/1/66</u>	<u>Unfunded Accrued Liability</u>
1	Barrington	3.30%	6.6%	\$ 210,635
2	Bristol	2.83	7.78	44,535
7	Cranston	5.05	6.40	1,165,441
9	East Greenwich	3.90	6.19	63,286
10	East Providence	5.88	6.35	813,299
15	Jamestown	3.27	6.97	41,132
21	Newport	5.77	6.78	1,181,376
23	North Kingstown	2.44	5.77	109,331
24	North Providence	3.88	5.14	178,545
25	North Smithfield	3.57	7.06	67,089
26	Pawtucket	4.53	4.76	1,957,935
31	Smithfield	2.33	5.75	43,347
32	South Kingstown	1.15	6.32	35,678
33	Tiverton	6.88	6.08	192,689
34	Warren	5.66	7.17	123,790
39	Woonsocket	7.90	5.03	<u>1,267,097</u>
	Total			<u>\$7,495,205</u>

Each municipality is required to apply the aforesaid rates to the assumed payroll for the year to which the budget applies. By this process, sufficient monies will always be provided in the annual budgets to meet the municipality's liability to the retirement system for service rendered by employees during the year in question at the prescribed rates of salary.


Appreciation in common stock values. We considered the matter of giving effect, at least in a partial measure, in the actuarial valuation of the system to the unrealized appreciation in the value of equity investments. Our judgment is that this should not be done at this time because of the small rate of appreciation which at June 30, 1966 was equal only to 3.4%. Further consideration will be given to this matter at a later date.

Debit balances in reserves. The statement of reserve allocations presented in the back of the report shows debit balances in the Employers' Contribution Reserve for the following cities and towns:

Cranston
North Kingstown
North Smithfield
Pawtucket
Tiverton
Warren
Woonsocket

The system is making good progress. Several reserve accounts for municipality contributions show debits. As previously explained, this situation is not a cause for immediate concern. It is not unusual to have a negative balance in reserves at the inception of coverage in a retirement system. As has been pointed out, the negative balance is only temporary being due to the immediate retirement of aged employees who had been waiting for coverage in the retirement system in order to obtain a retirement pension.

With the retirement of these aged employees, there should develop a lessening of the drain from this source. The employer's reserve accounts should then begin to show gradual improvement. In the course of a few years, the debit balances should be completely eliminated. Complete solvency in all reserve accounts should be then continuously maintained under the established contribution rates for the municipalities. These rates reflect substantial adequacy to meet current and accrued obligations for the participating municipalities under the applicable benefit schedule.


A. A. Weinberg
Actuary

FINANCIAL STATEMENTS

FINANCIAL BALANCE SHEET

JUNE 30, 1966

ASSETS

Cash		\$	21,240.62
Accrued Interest Receivable			46,644.38
Investments		\$4,214,544.19	
Unamortized Discounts	\$31,786.54		
Less, Unamortized Premiums	<u>10,813.48</u>	<u>20,973.06</u>	
Net Investments			<u>4,193,571.13</u>
Total Assets			<u><u>\$4,261,456.13</u></u>

RESERVES

Members' Contribution Reserve		\$1,556,867.19
Employers' Accumulation Reserve		- 786,454.89
Retirement Reserve		<u>3,491,043.83</u>
Total Reserves		<u><u>\$4,261,456.13</u></u>

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 1966

CASH BALANCE JULY 1, 1965

\$ 51,099.45

RECEIPTS:

Investments Sold or Matured		
Investment Earnings	\$ 575,000.00	
Discounts on Investments Purchased	137,496.43	
	<u>9,650.59</u>	\$ 722,147.02
Members' Contributions		506,244.42
Employers' Contributions		<u>913,151.52</u>
Total Receipts		<u>2,141,542.96</u>
Total Cash Available		<u><u>\$2,192,642.41</u></u>

DISBURSEMENTS:

Investments Purchased	\$1,669,655.89	
Refund of Earnings	1,815.00	
Accrued Interest	5,894.39	
Premiums Paid	1,071.88	
Commissions	250.00	
Postage & Insurance	<u>20.35</u>	1,678,707.51
Monthly Pension Benefits		312,580.46
Ordinary Death Benefits		70,000.00
Death Retirement Allowances	<u>5,790.60</u>	388,371.06
Refunds of Contributions:		
Employees	71,573.41	
Municipalities	<u>32,749.81</u>	<u>104,323.22</u>
Total Disbursements		<u><u>\$2,171,401.79</u></u>

CASH BALANCE JUNE 30, 1966

\$ 21,240.62

STATEMENT OF INVESTMENT EARNINGS
FISCAL YEAR ENDED JUNE 30, 1966

<u>Investment Income</u>		\$138,095.40
Adjustments, account of change over from Cash to Accrual		
<u>Add:</u>		
Accrued Interest Receivable	\$46,305.80	
Accrued Interest Purchased	338.58	
Unamortized Premiums	<u>10,813.48</u>	\$57,457.86
<u>Less:</u>		
Unamortized Discounts		<u>31,786.54</u>
<u>Net Addition</u>		<u>25,671.32</u>
Adjusted Gross Investment Income		\$163,766.72
<u>Add:</u>		
Investment Expense		
Commissions on Purchases	250.00	
Postage & Insurance on Purchases	<u>20.35</u>	<u>270.35</u>
<u>Net Investment Earnings</u>		<u>\$164,037.07</u>

COMPARATIVE STATEMENT OF NET INVESTMENT INCOME

STATEMENT OF CASH RECEIPTS & DISBURSEMENTS

FISCAL YEAR ENDED JUNE 30, 1966

	<u>1965-66</u>	<u>1964-65</u>
<u>Income:</u>		
Investment Earnings	\$137,496.43	\$100,368.23
Discounts on Purchases	9,650.59	25,623.03
Premiums on Sales		
<u>Gross Income</u>	<u>\$147,147.02</u>	<u>\$125,991.26</u>
<u>Expenses:</u>		
Refund of Earnings	1,815.00	
Loss on Sales		25.00
Accrued Interest on Purchases	5,894.39	10,126.22
Premiums on Purchases	1,071.88	10,995.00
Commissions on Purchases	250.00	
Postage & Insurance on Purchases	20.35	68.35
<u>Total Expenses</u>	<u>9,051.62</u>	<u>21,214.57</u>
<u>Net Investment Income for Year</u>	<u>\$138,095.40</u>	<u>\$104,776.69</u>

Summary of Investment Account
at June 30, 1966

<u>Type of Investment</u>	<u>Proportion of total</u>	<u>Cost or Par</u>	<u>Market Value at 6/30/66*</u>
U.S. Government	41.87%	\$1,775,000.00	\$1,775,000
Federal Land Bank	11.79	500,000.00	500,000
International Bank	0.59	25,000.00	25,000
Railroads	1.18	50,000.00	50,000
Public Utility Bonds	19.58	780,000.00	780,000
Other Bonds and Debentures	7.90	360,000.00	360,000
Common stocks	17.09	<u>724,544.19</u>	<u>749,331</u>
Total	100.00%	<u><u>\$4,214,544.19</u></u>	<u><u>\$4,239,331</u></u>

* Bonds and Debentures listed at par value
over-the-counter bid price at 6/30/66.
Common stocks listed on N.Y. and American
Exchange closing price at 6/30/66.

STATEMENT OF RESERVE ALLOCATIONS
FISCAL YEAR ENDED JUNE 30, 1966

<u>City or Town</u>	<u>Members' Contribution Reserve</u>	<u>Employers' Contribution Reserve</u>	<u>Retirement Reserve</u>
Barrington	\$ 155,512.07	\$ 46,211.14	\$ 246,320.00
Bristol	53,633.99	47,297.74	77,769.10
Transton	232,059.25	278,641.46*	671,502.66
East Greenwich	50,971.90	47,374.90	45,444.86
East Providence	183,831.40	169,239.11	249,514.80
Jamestown	9,032.03	12,279.72	5,062.93
North Kingstown	134,747.64	2,254.68*	194,254.71
North Providence	76,206.34	26,354.14	92,510.31
North Smithfield	12,866.91	1,220.74*	26,161.68
Pawtucket	334,039.22	615,844.99*	1,079,018.62
Smithfield	46,649.12	52,952.83	23,336.27
South Kingstown	74,030.30	102,084.32	27,146.17
Tiverton	14,582.19	156,517.63*	172,857.03
Warren	34,553.72	33,993.22*	123,159.45
Woonsocket	144,151.11	201,776.07*	456,985.24
Totals	<u>\$1,556,867.19</u>	<u>\$ -786,454.89</u>	<u>\$3,491,043.83</u>

*Denotes negative balance. These are temporary deficits to be removed within the next several years. They have resulted principally from the retirement of aged employees shortly after the inception of coverage for the particular city or town.