

REPORT OF THE ACTUARY

Fiscal Year Ended June 30, 1967

The results of a valuation of the System completed as of June 30, 1967 were satisfactory. The several basic factors bearing upon its operations and its progress to date indicate that the System is making constructive progress and is steadily improving its financial condition.

The following statistics pertain to the retired members:

	<u>Male</u>	<u>Female</u>
Number on pension roll	283	46
Annual payments	\$389,984.65	\$58,833.35
Average annual payment	\$1,378.04	\$1,278.99
Average age	69.6	69.6
Actuarial reserve requirements	\$3,825,969.00	\$667,563.00

The actuarial reserve requirements on account of the foregoing pensioners amounted to \$4,493,532.00. This compares with the balance in the Retirement Reserve at June 30, 1967 of \$4,872,466.16. This is indicative of financial solvency with respect to the retirement allowances entered upon according to the applicable mortality standards and an interest rate assumption of 3-1/2% per annum.

OBLIGATIONS OF MUNICIPALITIES

The participating municipalities have assumed obligations on account of their employees who are members of the System as follows: (a) the accrued liability for service rendered by the members prior to the effective date of the participation, referred to as "prior service"; and (b) the accruing cost for future service commonly referred to as "normal cost" or "current service" cost.

In the case of each municipality, the liability for prior service was determined just prior to participation in the System upon the basis of the service rendered by their employees. As required by law, a prior service contribution rate was fixed as a percentage of payroll at a rate deemed sufficient to amortize the accrued liability over a period of 25 years from the effective date of participation.

Current service or normal cost was calculated upon the basis of total membership giving full effect to the service and age characteristics of each municipality. This rate also was fixed as a percentage of 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 annual amortization payment on account of the accrued liability.

The prior service and current service contribution rates are given below for the several participating municipalities together with the unfunded accrued liability at June 30, 1967:

Municipal Code No.	Municipality	Prior Service Rate	Current Service Rate	Unfunded Accrued Liability
1	Barrington	3.30%	6.69%	\$ 194,460
2	Bristol	2.83	7.78	38,476
7	Cranston	5.05	6.40	1,119,597
9	East Greenwich	3.90	6.19	56,563
10	East Providence	5.88	6.35	769,547
15	Jamestown	3.27	6.97	39,639
21	Newport	5.77	6.78	1,157,314
23	North Kingstown	2.44	5.77	97,111
24	North Providence	3.88	5.14	167,772
25	North Smithfield	3.57	7.06	62,806
26	Pawtucket	4.53	4.76	1,928,669
31	Smithfield	2.33	5.75	39,179
32	South Kingstown	1.15	6.32	32,909
33	Tiverton	6.88	6.08	189,149
34	Warren	5.66	7.17	116,866
39	Woonsocket	7.90	5.03	1,220,481
	Total			\$7,230,538

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 proscribed rates of salary.

Amendments. Several liberalizing amendments were enacted at the 1967 session of the General Assembly. These amendments resulted in an increase in the cost of financing the System. The full cost effect of these amendments has been evaluated in terms of a percentage of payroll as follows:

Amendment	Increase in cost as per cent of payroll
1. Reduction in average salary base from 5 to 3 years for retirement and ordinary disability retirement purposes	0.60%
2. Change in minimum service requirement for ordinary disability retirement from 10 to 7 years	0.12
3. Revision of the ordinary death benefit in its application to retired members	0.18
4. Election of optional benefit by a member in service payable upon death while in service	0.40
Total cost increase	1.30%

The full cost implications of these several changes will be covered in a supplementary report to be submitted to the Retirement Board at a later date.

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 relatively short period of experience with this type of investment. Further consideration will be given to this matter at a later date.

Negative balances in Employers' Contribution Reserve. The statement of reserve allocations presented in the back of the report shows negative balances in this reserve in the case of the following cities and towns:

Cranston	Pawtucket	Tiverton
Northport		Warren
North Providence		Woonsocket

It is noted that the negative balances in the case of North Kingstown and North Smithfield were eliminated during the year. As was previously explained, the negative balances in the Employers' Contribution Reserve are temporary and will eventually be removed by continued operations of the System. They have

resulted from the retirement of aged employees immediately following the inception of the System as to the particular city or town.

We are continually studying this situation and find that it is due, as stated above, to the retirements that occurred shortly after commencement of coverage. This necessitated setting up full reserves for their annuities in the Retirement Reserve by charging the Employers' Contribution Reserve for practically the entire amount of the full actuarial reserve requirements.

CONCLUSION

Reserves are being accumulated to meet the accrued and accruing liabilities under the applicable law. Several provisions of the retirement plan were revised and updated at the 1967 session of the General Assembly creating greater adequacy in benefit expectations for members of the System. Also, the effect of these changes was to establish uniformity in certain benefits and qualifying conditions between this system and the Employees' Retirement System.

In the case of the Employees' Retirement System, the Retirement Board is maintaining progressive policies in management and

administration designed to achieve the stated objectives of the System in the most effective manner to the advantage of both the employee members of the System and the participating cities and towns.

A. A. Weinberg,
Actuary