

September 4, 2014

The Honorable Patricia Llodra  
TOWN OF NEWTOWN  
3 Primrose St.  
Newtown, CT 06470

Re: Town of Newtown Pension Plan - Police Personnel  
Our File No. 2823

Dear First Selectman Llodra:

We are pleased to present your Annual Valuation Report for the Police Pension Plan as of July 1, 2014.

For the 2015-16 Fiscal Year of the Town, we are recommending a contribution as follows:


Minimum As of July 1, 2015:       \$586,601

Please see the General Comments section of the report for more details on the ongoing funding progress of the plan, and some of the issues facing it for the immediate future.

Please note the Actuarial Certification, which is included on page 2 of this letter.

Please let me know if you have any questions or comments concerning this report. I look forward to presenting the report to the Pension Committee later in the fall. My direct phone line is (386)206-8932.

Sincerely,

  
David G. Leonard, A.S.A.  
Account Executive

cc: Tom Murtha (8 copies)  
Robert Tate

Enclosures

**ACTUARIAL CERTIFICATION**

This report has been prepared in accordance with generally accepted actuarial standards and procedures and conforms to the Guidelines for Professional Conduct of the American Academy of Actuaries.

The valuation is based on employee and plan financial data which were provided by the Plan Administrator, Plan Trustee, and various financial institutions. All information submitted to us has been reviewed for reasonableness and consistency, but has otherwise been accepted and relied upon without audit. The plan provisions and other material assumptions are disclosed in report in their respective sections.

To the best of our knowledge, the information supplied in this report is complete and accurate.

Future actuarial measurements may differ significantly from the current measurement presented in this report due to such factors as the following: plan experience differing from that anticipated; 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.

I, David G. Leonard, A.S.A., E.A., am a member of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained here



David G. Leonard, A.S.A.

Enrollment #14-03604

9/4/14

Date

ANNUAL VALUATION REPORT  
FOR  
TOWN OF NEWTOWN PENSION PLAN  
POLICE DEPARTMENT PERSONNEL  
AS OF JULY 1, 2014

Prepared by:

David G. Leonard, ASA  
T R PAUL, INC.

# **TOWN OF NEWTOWN PENSION PLAN – POLICE PERSONNEL**

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# TOWN OF NEWTOWN PENSION PLAN POLICE PERSONNEL

## I. HIGHLIGHTS

This section of the report summarizes the results of the July 1, 2014 actuarial valuation and provides a comparison with the results of the prior valuation. The development of these items for the current valuation is shown in the remaining sections of the report.

The percentage in parenthesis express each amount as a percentage of covered payroll:

	<u>July 1, 2014</u> <u>Valuation</u>	<u>July 1, 2013</u> <u>Valuation</u>
1. Recommended Annual Contributions:*	\$ 586,601 ( 17.3% )	\$ 615,427 ( 16.1% )
2. Covered Payroll of Participants (covered earnings for the fiscal year preceding the valuation date)	\$ 3,393,213	\$ 3,827,046
3. Net Normal Cost	\$ 309,997 ( 9.1% )	\$ 360,668 ( 9.4% )
4. Accrued Actuarial Liability	\$ 16,582,292	\$ 15,470,719
5. Assets - Market Value	\$ 13,696,532	\$ 11,977,460
- Blended Value	\$ 14,395,542	\$ 13,517,603
6. Unfunded Accrued Liability (Blended)	\$ 2,186,750	\$ 1,953,116
7. Actuarial Value of Benefits:		
a. Value of Vested Accrued Benefits	\$ 16,365,553	\$ 15,525,458
b. Value of Non-Vested Accrued Bens.	\$ 358,884	\$ 320,023
c. Assets in excess of Vested Benefits (5-mkt minus 7a)	\$ (2,669,021)	\$ (3,547,998)
8. Number of Participants:		
a. Active Participants	40	45
b. Retired and Beneficiaries	24	20
c. Terminated Vested Participants (includes refunds only due)	4	4
d. Total	68	69

\* Calculated assuming beginning of the next fiscal year payment, for that fiscal year.

## TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL

II. GENERAL COMMENTS

The recommended contribution produced by the July 1, 2014 valuation decreased \$28,826, to a recommended level of \$586,601 for the 2015-16 fiscal year.

A summary of the factors in the change for the year reveals the following:

Reduction in Discount Period:	\$ 40,467
Excess Salary Increases:	24,752*
Valuation Asset Losses:	19,956
Change in Actuarial Assump.:	0
New Members:	0
Terminated Members:	(109,309)
Misc. Actuarial Factors:	(4,691)
 Total Changes:	 \$ (28,826)

\* Includes reversal of 2013 overtime adjustment.

The biggest feature affecting plan costs this year were four retirements among active members. These members previously contributed more than \$100,000 to the plan's normal cost. When a non-vested terminated member is also considered, the recommended contribution decreased by approximately \$109,309 from the departure of these five members, who were not replaced in the plan.

There were other factors that prevented the recommended contribution from decreasing by the full value of the retirees' savings. These were mainly the continued aging of the remaining 40 active members, plus an absorption of the temporary adjustment made last year in response to the excessive overtime from the second half of the 2012-13 fiscal year.

The trust earned 13.9% (on market value) during the 2013-14 plan year. With the recognition of past losses phasing in (because of the blended valuation asset calculation), the valuation return was 6.2%. This was once again better than last year's result. While there is still an actuarial loss on trust assets, it is much smaller this year - for the Police Plan the loss was \$176,153. Additionally, the unrecognized actuarial loss on a plan wide basis decreased by more than \$2 million, from \$3.9 mil. to \$1.8 million.

The plan's funding ratio on accrued benefits, using a 7% discount factor and market value assets, increased by 6 points from 75.6% to almost 82%. This is a reflection of the strong year that the trust assets experienced on a market value basis.

We will be producing the required GASB-67-68 values soon. Two important points to note regarding the new GASB standards – one is that the “Pension Expense” from GASB is not supposed to replace the actuarial cost calculations. Our actuarial recommendations include elements to try and stabilize the contribution requirements as much as possible, which GASB's do not. The other is, according to the GASB rules, the Police and Town plans are required to be reported together (i.e. treated as one plan). Accordingly, we will not provide separate liability or expense amounts unless specifically requested..

**TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL**

**III(a). PLAN ASSETS - SUMMARY**

<b>Investment</b>	<b>07/01/2013 Beginning Balance</b>	<b>Employer Contribs.</b>	<b>Employee Contribs.</b>	<b>Net Investment Income</b>	<b>Trust Expenses</b>	<b>Distributions</b>	<b>06/30/2014 Ending Balance</b>
ER Contrib. Receivable	0	0	0	0	0	0	0
EE Contrib. Receivable	24,637	0	(1,743)	0	0	0	22,894
Benefit Payment Adjustments	881	0	0	0	0	(881)	0
Prepaid Benefits	115,724	0	0	0	0	14,770	130,494
<u>Westport Resources</u>							
Cash	1,778,511	1,202,909	465,850	759,546	(170,876)	(1,527,243)	1,742,978
Investments	28,272,137	0	0	3,735,510	0	0	32,773,366
Accrued Interest	146,824	0	0	(21,514)	0	0	125,310
<b>PLAN TOTALS</b>	<b>30,338,713</b>	<b>1,202,909</b>	<b>464,107</b>	<b>4,473,542</b>	<b>(170,876)</b>	<b>(1,513,354)</b>	<b>34,795,041</b>

Note: Rows above do not balance across due to transfers from investments to cash at Westport Resources.

**Distribution of Assets by Department**

<b>Plan Category</b>	<b>07/01/2013 Beginning Balance</b>	<b>Employer Contribs.</b>	<b>Employee Contribs.</b>	<b>Net Investment Income*</b>	<b>Distributions EE Transf.*</b>	<b>06/30/2014 Ending Balance</b>	<b>06/30/2014 Blended Val. Balance</b>
Board of Education	7,550,530	481,163	152,910	1,098,872	(358,936)	8,924,538	9,380,007
Selectmen	10,723,243	235,047	126,020	1,493,640	(522,936)	12,055,013	12,670,248
Elected officials	87,481	12,971	4,324	14,183	0	118,958	N/A
Police Plan	11,977,460	473,728	180,854	1,695,971	(631,482)	13,696,532	14,395,542
<b>Grand Total</b>	<b>30,338,713</b>	<b>1,202,909</b>	<b>464,107</b>	<b>4,302,666</b>	<b>(1,513,354)</b>	<b>34,795,041</b>	<b>36,445,798</b>

\* Income reduced for trust expenses; allocated on a weighted basis. Distributions adjusted for internal employee transfers.

## TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL

## III. PLAN ASSETS

## (b) Smoothed Valuation Asset Calculation - for 6/30/14

	Beginning of Year End of Year	07/01/2013 06/30/2014	07/01/2012 06/30/2013
(1) Actuarial Value of Assets - BOY		\$34,141,141	\$32,278,707
(2) Contributions for year made in year *		1,626,828	1,744,705
(3) Disbursements & non-investment exp. *		(1,513,354)	(1,405,014)
(4) Assumed interest at valuation rate - 7.50%/7.75%		<u>2,610,717</u>	<u>2,470,584</u>
(5) Preliminary Value of Assets - EOY		\$36,865,333	\$35,088,982
(6) Market Value of Assets - EOY *		34,653,189	30,226,596
(7) Market Value less Preliminary Value		(2,212,143)	(4,862,386)
(8) Adjustment - 20% of (7)		(442,429)	(972,477)
(9) Actuarial Value of Assets, EOY, before accrued contributions (5) + (8)		36,422,904	34,116,505
(10) Accrued contributions for year		22,894	24,637
(11) 80% of Market Value w/ (10)		27,740,866	24,200,986
(12) 120% of Market Value w/ (10)		41,611,300	36,301,479
(13) Actuarial Value of Assets, EOY, (9) + (10) but not less than (11) or greater than (12)		36,445,798	34,141,141
(14) Market Value of Assets		34,676,083	30,251,232
(15) Current Cushion (Unrec. gains/(losses) )		(1,769,715)	(3,889,909)
(16) Earnings on Valuation Assets		\$2,168,289	\$1,498,107
(17) Valuation Yield		6.229%	4.548%

\* Excludes MP Plan market value, contributions and distributions,  
and accrued contributions. Includes EE Contributions, less receivables.



# **TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL**

## **IV. ANNUAL VALUATION - JULY 1, 2014**

### **a. Calculation of Recommended Contributions**

<b>1. Gross Normal Cost as of 7/1/2014</b>	<b>\$466,965</b>
<b>2. Expenses</b>	<b>7,000</b>
<b>3. Expected Employee Contributions</b>	<b>163,968</b>
<b>4. Net Normal Cost (1 + 2 - 3) as of 7/1/2014</b>	<b>309,997</b>
<b>5. Accrued Liability:</b>	
i. Active Employees	7,650,764
ii. Inactive Employees	696,827
iii. Retired Participants	8,234,701
<b>6. Total Accrued Liability</b>	<b>\$16,582,292</b>
<b>7. Plan Assets - Blended Value</b>	<b>14,395,542</b>
<b>8. Unfunded (overfunded) Accrued Liability (6 - 7)</b>	<b>2,186,749</b>
<b>9. Amortization of Unfunded (Overfunded) Accd. Liability*</b>	<b>230,447</b>
<b>10. Normal Cost plus Amortization 7/1/2014 (4 + 9)</b>	<b>540,444</b>
<b>11. Recommended Contribution for 2015-16 to be paid 7/01/2015 (10 adjusted for interest**)</b>	<b>\$586,601</b>

\* Amortized over 15 years.

\*\* Interest adjustment takes into account the expected timing of plan deposits, including employee contributions.

**TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL**

**IV. ANNUAL VALUATION - JULY 1, 2014**

**b. GASB Statement 5 and FASB  
Statement 35/36 Information**

**I. PENSION BENEFIT OBLIGATION (PBO)**

<b>a. Retirees/Benefic./Terminated</b>	<b>\$8,931,528</b>	
<b>b. Current Employees</b>		
<b>I. EE Contr. &amp; Intr.</b>	<b>2,340,807</b>	
<b>II. ER Financed Vested</b>	<b>4,760,521</b>	
<b>III. ER Financed Non-Vested</b>	<b>549,435</b>	
<b>c. TOTALS</b>	<b>16,582,292</b>	
<b>d. ASSETS - Blended Value</b>	<b>14,395,542</b>	
<b>e. FUNDED RATIO (7/1/2014)</b>	<b>86.81%</b>	- at 7.50%
<b>f. FUNDED RATIO (7/1/2013)</b>	<b>87.38%</b>	- at 7.50%

**II. PRESENT VALUE OF ACCRUED BENEFITS (PVAB)**

<b>a. Retirees/Benefic./Terminated</b>	<b>\$9,440,485</b>	
<b>b. Current Employees</b>		
<b>I. EE Contr. &amp; Intr.</b>	<b>2,340,807</b>	
<b>II. ER Financed Vested</b>	<b>4,584,261</b>	
<b>III. ER Financed Non-Vested</b>	<b>358,884</b>	
<b>c. TOTALS</b>	<b>16,724,437</b>	
<b>d. ASSETS - Market Value</b>	<b>13,696,532</b>	
<b>e. FUNDED RATIO (7/1/2014)</b>	<b>81.90%</b>	- at 7%
<b>f. FUNDED RATIO (7/1/2013)</b>	<b>75.59%</b>	- at 7%

# **TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL**

## **V. HISTORY OF PLAN CONTRIBUTIONS AND LIABILITIES**

<b>Plan Year Beginning</b>	<b>Participants Act. - Other</b>		<b>Compensation*</b>	<b>Accrued Liability</b>	<b>Mkt. Value Assets</b>	<b>Unfunded Accrued Liability (market basis)</b>	<b>Recommended Contribution+ (from prior rpt)</b>	<b>(**)</b>	<b>Actual Town Contribution</b>
01/01/1990	28	3	\$1,028,594	\$1,897,742	\$1,570,259	\$327,483	\$105,873	( 10.29% )	\$120,889
07/01/1995	34	6	1,603,088	4,116,224	3,468,628	647,596	209,628	( 13.08% )	209,628
07/01/2000	36	13	1,768,798	6,912,642	7,444,398	(531,756)	102,234	( 5.78% )	150,000
07/01/2004	41	15	2,464,143	8,745,173	8,334,236	410,937	193,000	( 7.83% )	193,303
07/01/2005	42	16	2,637,458	9,515,132	8,763,251	751,881	214,000	( 8.11% )	213,647
07/01/2006	41	20	2,643,190	10,090,519	9,124,594	965,925	277,000	( 10.48% )	276,339
07/01/2007	41	22	2,812,921	10,555,713	9,999,443	556,270	287,328	( 10.21% )	269,716
07/01/2008	42	25	2,973,016	10,983,585	10,226,097	757,488	325,909	( 10.96% )	325,844
07/01/2009	47	22	3,415,591	12,011,192	9,099,512	2,911,680	342,670	( 10.03% )	344,475
07/01/2010	46	23	3,579,566	12,755,035	9,897,841	2,857,194	460,540	( 12.87% )	472,764
07/01/2011	42	24	3,448,073	13,655,333	11,392,350	2,262,983	502,513	( 14.57% )	502,431
07/01/2012	45	24	3,631,329	14,542,202	11,147,927	3,394,275	517,812	( 14.26% )	517,812
07/01/2013	45	24	3,827,046	15,470,719	11,977,460	3,493,259	548,620	( 14.34% )	473,728
07/01/2014	40	28	3,393,213	16,582,292	13,696,532	2,885,760	615,427	( 18.14% )	

\* Compensation shown is actual for the twelve months preceeding the valuation date for active members only. Projected compensation is used for valuation purposes.

\*\* Figures in parenthesis are Recommended Contribution as a percentage of compensation.

+ Recommended contribution for current fiscal year from prior annual report (starting 2003).  
The 7/1/2014 Valuation Calculation produced a required contribution of \$540,444

## TOWN OF NEWTOWN PENSION PLAN POLICE PERSONNEL

## VI. PARTICIPANT DATA RECONCILIATION

The total number of active plan participants as of the current valuation date is reconciled with the total number as of the prior valuation date as follows:

	<u>Police Personnel</u>
Number of Active Participants as of July 1, 2013:	45
Decreases:	
Non-Vested Terminations:	(1)
Vested Terminations:	0
Retirements:	(4)
Deaths, Withdrawals:	0
Total Increases/(Decreases):	(5)
New Entrants during 2013-14:	0
Net Change:	(5)
Number of Active Participants as of July 1, 2014:	40
Also as of July 1, 2014:	
Total Vested Terminated (incl. refunds due):	4
Total Retired:	24
TOTAL PARTICIPANTS:	68

\* Active participants include members beyond their  
Normal Retirement Dates.

## TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL

APPENDIX APENSION TRUST SUMMARY

PLAN SPONSOR:	Town of Newtown
EFFECTIVE DATE:	July 1, 1965
ANNIVERSARY DATE:	July 1 of each year.
VALUATION DATE:	July 1, 2014

DEFINITIONS

Compensation:	Total compensation limited each year to 125% of base compensation. Final Average Compensation includes the participants highest 36 consecutive months.		
Participation:	Eligibility -	Service:	6 Months
		Maximum Age:	60
Entry Date:	On the first day of the month following satisfaction of eligibility.		
Service:	Continuous employment with the Town.		
Credited Service:	Service used in the determination of plan benefits. Includes all service except:		
	<ul style="list-style-type: none"> <li>(1) Service in excess of 30 years.</li> <li>(2) Service after July 1, 1965 during which an employee could have made employee contributions but did not.</li> <li>(3) Service prior to July 1, 1965 if an employee did not elect to be covered on that date.</li> </ul>		
Normal Retirement Date:	First of the month coinciding with or following the earlier of:		
	<ul style="list-style-type: none"> <li>(1) Age 60 with at least 10 years of continuous Credited Service.</li> <li>(2) 25 years of Service at any age.</li> </ul>		
Early Retirement Date:	Anytime after completing 20 years of Service.		
Normal Retirement Benefit:	2.25% of Final Average Compensation times years of Credited Service.		

## PENSION TRUST SUMMARY - Continued

Early Retirement Benefit:	Accrued Benefit reduced 6% for each year prior to Normal Retirement Date.
Normal Form of Benefit:	Modified Cash Refund Annuity.
Disability:	
Eligibility:	At least one year of service and unable to work in any occupation.
Benefit:	<p>2.25% of base salary times years of Credited Service subject to a minimum of 25% of base salary and one of the following maximums:</p> <ol style="list-style-type: none"> <li>(1) Job related disability - 85% of base salary less any other Town funded disability benefits (Social Security, Worker's Compensation, etc.).</li> <li>(2) Non-job related disability - 50% of base salary.</li> </ol>
Pre-Retirement Spouse's Benefit:	<p>The following benefits are available to the spouse of an actively employed policeman who dies:</p> <ol style="list-style-type: none"> <li>(1) Death incurred in the line of duty - 50% of a Policeman's Normal Retirement Benefit, assuming salary and service would have continued to Normal Retirement Date. There is no age or service requirement for this benefit. The benefit stops when the spouse remarries or dies.</li> <li>(2) Death not incurred in the line of duty - Benefit is equal to the 50% Joint and Survivor Benefit that would have been available if the policeman had retired on his date of death. Participant must have been eligible for Early or Normal Retirement to qualify for this death benefit. The benefit stops when the spouse remarries or dies.</li> </ol>
Death Benefits:	Return of Employee Contributions plus interest (active and terminated only).
Vesting:	100% vesting in Employer portion of Normal Retirement Benefit at the completion of 10 years of Credited Service.
Cost of Living Adjustment:	
Eligibility:	There are three (3) retired members of the plan who are eligible for and receive Cost of Living Adjustments. There is no Cost of Living Adjustment for any other currently active or currently retired member.
Benefits:	<p>Annual cost of living increased will be provided to eligible retired policemen in an amount equal to the smaller of:</p> <ol style="list-style-type: none"> <li>(1) 50% of the rate of salary increase for new policemen</li> <li>(2) 3%</li> </ol>

## PENSION TRUST SUMMARY - Continued

Special Buy Back:	Special provision which allowed L. Carlson, M. Fekete, J. Mooney and H. Stormer to resume employee contributions and buy back past contributions plus 5½% interest.
Military Buy Back:	MERF B type of military service buyback which allowed for the buyback of military service during the Korean and Vietnam hostilities by contributing 2% of earnings for each such year of service. In addition, another MERF B type of military service buyback which allowed for the buyback of 75% of military service which took place outside of the Korean and Vietnam hostilities by contributing 2% of earnings for each such year of credited military service.
Employee Contributions:	5% of Compensation for all members. Maximum contribution period is 30 years.

## TOWN OF NEWTOWN PENSION PLAN - POLICE PERSONNEL

APPENDIX BACTUARIAL ASSUMPTIONSFUNDING METHOD

Projected unit credit with a constant 15 year amortization of the current unfunded amount.

TRUST ASSET VALUATION METHOD

Valuation assets are calculated using a smoothing formula which recognizes variances from the assumed rate of return 20% per year.

INTEREST ASSUMPTION

7.50% Compounded Annually. Prior to 2012, 7.75% to 8% annual interest rates were assumed. (for Present Value of Accrued Benefits, 7% was used beginning in 2012).

MORTALITY ASSUMPTION

2014 IRS Standard IRS Post-Retirement Pension Mortality (14-M/F Pos).

TURNOVER

Participants are assumed to terminate at the following rates:

<u>Age</u>	<u>% Term.</u>
25	5%
30	4%
35	3%
40	2%
45	1%
50	0%

SALARY SCALE

Salaries are assumed to increase at 3% per year starting one year after the Valuation Date. For the year following the Valuation Date we use the current base compensation increased by a factor that is based on the overtime percentage earned in the prior fiscal year.

RETIREMENT AGE

Participants are assumed to retire at the later of their Normal Retirement Date, or age 50. If a participant is past the date as determined above, he is assumed to retire one year after the valuation date.

COLA -Assumed to be 1.5% annually when in force.

ESTIMATED EXPENSES - Direct expenses of the trust are assumed to be \$7,000.