

September 4, 2014

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

Re: Town of Newtown Pension Plan - Selectmen and  
Board of Education Personnel & Elected Officials Pension Plan  
Our File No. 2823

Dear First Selectman Llodra:

We are pleased to present your Annual Valuation Report as of July 1, 2014. Again this year we have separated the report into two sections, with Part I containing the general calculations and disclosures, and Part II covering the individual participants benefit data.

For the 2015-16 Fiscal Year of the Town, our recommended contribution is as follows:

As of July 1, 2015:	<u>Recommended</u>
Selectmen	\$373,516
Police (see separate rpt.)	<u>586,601</u>
Total Town of Newtown	\$960,117
Board of Education:	\$462,620


If the deposits are to be made substantially later than July 1, 2015, interest at 7.50% per annum should be added.

Please see the General Comments section of the valuation report for information regarding changes in the plan's contribution requirements.

At the end of the report is the information on the Elected Officials Pension Plan.

Please let me know if you have any questions or comments concerning this report.

Sincerely,

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

cc: Tom Murtha (8 copies)  
Robert Tait

**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  
BOARDS OF SELECTMEN AND EDUCATION  
AS OF JULY 1, 2014

Prepared by:

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

# **TOWN OF NEWTOWN PENSION PLAN**

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# TOWN OF NEWTOWN PENSION PLAN

## 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:

	July 1, 2014		July 1, 2013	
	<u>Valuation</u>		<u>Valuation</u>	
1. Recommended Annual Contributions:*				
a. Board of Selectmen	\$	373,516 ( 5.5% )	\$	354,822 ( 5.4% )
b. Board of Education	\$	462,620 ( 6.1% )	\$	402,958 ( 5.6% )
c. Total Town Plan	\$	836,136 ( 5.8% )	\$	757,780 ( 5.5% )
2. Covered Payroll of Participants (pension earnings projected for the fiscal year following the valuation date)				
a. Board of Selectmen	\$	6,757,350	\$	6,579,449
b. Board of Education	\$	7,574,805	\$	7,201,606
c. Total Town Plan	\$	14,332,155	\$	13,781,055
3. Net Normal Cost	\$	747,737 ( 5.2% )	\$	681,115 ( 4.9% )
4. Accrued Actuarial Liability	\$	22,250,733	\$	20,767,801
5. Assets - Market Value (MV)	\$	20,979,552	\$	18,273,772
- Blended Value (BV)	\$	22,050,256	\$	20,623,538
6. Unfunded Accrued Liability (BV)	\$	200,477	\$	144,263
7. Actuarial Value of Benefits (total plan):				
a. Value of Vested Accrued Benefits	\$	19,378,495	\$	18,726,660
b. Value of Non-Vested Accrued Bens.	\$	898,973	\$	834,197
c. MV Assets in excess of Vested Benefits (4 minus 5a)	\$	1,601,057	\$	(452,888)
8. Number of Participants:	<u>Sel.</u>	<u>Bd. of Ed.</u>	<u>Sel.</u>	<u>Bd. of Ed.</u>
a. Active Participants	129	209	130	198
b. Retired and Beneficiaries	51	48	45	46
c. Terminated Vested Participants (includes refunds only due)	12	18	11	16
d. Total	192	275	186	260

\* Calculated assuming end of the fiscal year payment, for use in following fiscal year as of July 1.

## TOWN OF NEWTOWN PENSION PLAN

### II. GENERAL COMMENTS

The July 1, 2014 valuation report was prepared on a group of 129 active members in the Selectmen's accounts, and 209 members for the Board of Education.

The Selectmen's group active membership has decreased by one (1) from last year's report, however average salary increases just over 3% plus new members served to increase the total salary base by 2.7%. For the Board of Education, the 209 number represents an increase of eleven (11) members. The total salary base increased by 5.2%, indicating that the average participant's salary did not change much from 2013 to 2014.

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 this plan the loss was \$262,213 (vs. 589,258 in 2013). This loss added \$18,934 and \$8,699 to the base cost of the plan for the Selectman's group and Board of Education, respectively.

One positive result from the smoothed valuation asset calculation was a decrease in the unrecognized actuarial loss from asset performance. On a plan wide basis it decreased by more than \$2 million, from \$3.9 mil. to \$1.8 million. If this unrecognized loss can be eliminated, the plan can reap actuarial gains rather than losses from the trust's performance.

Both employee groups would have seen about 15% increases in the recommended contribution from factors such as new members, trust asset losses, and the normal passage of time, however in the Selectmen's group there was a large number of retirements, and a significant retiree death. This helped hold down the recommended contribution increase to 5.7%.

The Board of Education's \$60,000 increase can be directly traced to \$24,000 for new members, about \$30,000 for prior actives, and \$8,700 due to trust asset losses, with a slight net reduction from other actuarial factors such as terminations, retirements, and longevity losses.

The plan's funded accrued benefit ratio increased significantly, from 94% to 103%. This measure is calculated using a 7% discount factor and market value assets. While not completely accurate on a "settlement" basis, due to today's lower interest rates, it does point to a very healthy plan.

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**

**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

## 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

## IV. ANNUAL VALUATION - JULY 1, 2014

## a. Calculation of Recommended Contributions

	SELECTMEN	BOARD OF ED.	TOTALS
1. Gross Normal Cost as of 7/1/2014	\$480,963	\$535,942	\$1,016,905
2. Expenses	6,020	6,980	13,000
3. Expected Employee Contributions	130,672	151,496	282,168
4. Net Normal Cost (1 + 2 - 3) as of 7/1/2014	356,312	391,426	747,737
5. Accrued Liability:			
i. Active Employees	7,896,977	6,661,066	14,558,043
ii. Inactive Employees	483,152	397,674	880,825
iii. Retired Participants	4,166,822	2,645,043	6,811,865
6. Total Accrued Liability	\$12,546,950	\$9,703,783	\$22,250,733
7. Plan Assets - Blended Value	12,670,248	9,380,007	22,050,256
8. Unfunded (overfunded) Accrued Liability (6 - 7)	(123,298)	323,776	200,478
9. Amortization of Unfunded (Overfunded) Accd. Liability*	(12,994)	34,121	21,127
10. Normal Cost plus Amortization 7/1/2014 (4 + 9)	343,318	425,546	768,865
11. Recommended Contrib.- 2015-16 to be paid 7/01/2015 (10 adjusted for interest**)	\$373,516	\$462,620	\$836,136

\* Amortized over 15 years.

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

## TOWN OF NEWTOWN PENSION PLAN

## IV. ANNUAL VALUATION - JULY 1, 2014

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

	SELECTMEN	BOARD OF ED.	TOTALS
<b>I. PENSION BENEFIT OBLIGATION - 7.5%</b>			
a. Retirees/Benefic./Terminated	\$4,649,974	\$3,042,717	\$7,692,691
b. Current Employees			
I. EE Contr. & Intr.	1,927,709	1,585,060	3,512,769
II. ER Financed Vested	5,651,728	4,016,265	9,667,993
III. ER Financed Non-Vested	318,025	1,060,313	1,378,338
c. TOTALS	\$12,547,436	\$9,704,355	\$22,251,790
d. ASSETS - Blended Value	\$12,670,248	\$9,380,007	\$22,050,256
e. FUNDED RATIO (7/1/2014)	100.98%	96.66%	99.09%
f. FUNDED RATIO (7/1/2013)	101.41%	96.47%	99.31%
<b>II. PRESENT VALUE OF ACCRUED BENEFITS - 7%</b>			
a. Retirees/Benefic./Terminated	\$4,827,185	\$2,780,752	\$7,607,937
b. Current Employees			
I. EE Contr. & Intr.	1,927,709	1,585,060	3,512,769
II. ER Financed Vested	4,670,283	3,587,505	8,257,789
III. ER Financed Non-Vested	161,826	737,147	898,973
c. TOTALS	\$11,587,004	\$8,690,464	\$20,277,468
d. ASSETS - Market Value	\$12,055,013	\$8,924,538	\$20,979,552
e. FUNDED RATIO (7/1/2014)	104.04%	102.69%	103.46%
f. FUNDED RATIO (7/1/2013)	95.58%	90.81%	93.55%

# TOWN OF NEWTOWN PENSION PLAN

## V. HISTORY OF PLAN CONTRIBUTIONS AND LIABILITIES

Plan Year Beginning	Participants Act. - Other		Compensation*	Accrued Liability	Market Value Assets	Unfunded Accrued Liability	Recommended Contribution	(**)	Actual Town Contribution
01/01/1990	91	37	\$2,050,023	\$1,902,884	\$2,141,739	(\$238,855)	\$102,982	( 5.02% )	\$114,531
07/01/1995	130	35	3,708,414	3,751,830	3,840,917	(89,087)	208,274	( 5.62% )	208,274
07/01/2000	161	58	5,400,600	6,647,849	8,409,663	(1,761,814)	79,486	( 1.47% )	80,297
07/01/2005	274	86	9,809,015	11,515,670	11,857,942	(342,272)	416,365	( 4.24% )	420,381
07/01/2007	305	90	11,031,168	13,662,528	14,613,620	(951,092)	414,121	( 3.75% )	437,410
07/01/2008	317	92	11,878,385	14,891,671	15,223,108	(331,437)	374,614	( 4.14% )	374,595
07/01/2009	338	108	12,834,058	16,463,315	13,609,723	2,853,592	492,222	( 3.84% )	493,236
07/01/2010	341	111	13,109,110	17,709,414	14,861,965	2,847,449	663,805	( 5.06% )	651,581
07/01/2011	336	112	13,371,509	18,952,786	17,277,555	1,675,231	699,265	( 5.23% )	699,214
07/01/2012	330	111	13,313,292	19,087,165	16,986,684	2,100,481	728,272	( 4.79% )	731,579
2013 Select.	130	56	6,579,449	11,934,428	10,723,243	1,211,185	272,205	( 4.14% )	235,047
2013 Board	198	62	<u>7,201,606</u>	<u>8,833,373</u>	<u>7,550,530</u>	<u>1,282,843</u>	<u>365,780</u>	( 5.08% )	<u>481,163</u>
07/01/2013 (tot)	328	118	13,781,055	20,767,801	18,273,773	2,494,028	637,985	( 4.63% )	716,210
2014 Select.	129	63	6,757,350	12,546,950	12,055,013	491,937	354,822	( 5.25% )	
2014 Board	209	66	<u>7,574,805</u>	<u>9,703,783</u>	<u>8,924,538</u>	<u>779,245</u>	<u>402,958</u>	( 5.32% )	
07/01/2014 (tot)	338	129	14,332,155	22,250,733	20,979,551	1,271,182	757,780	( 5.29% )	

\* Compensation shown is expected for the twelve months following the valuation date for active members only.

\*\* Figures in parenthesis are Recommended Contribution as a percentage of compensation. Recommended Contribution is based on prior year's valuation rolled forward, not on current valuation. The 2014 valuation produced a contribution as of 7/1/2014 totalling \$768,865.

## TOWN OF NEWTOWN PENSION PLAN

## 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:

	Selectmen's <u>Accounts</u>	Board of <u>Education#</u>	Plan <u>Totals</u>
Number of Active Participants as of July 1, 2013:	130	198	328
Decreases:			
Non-Vested Terminations:	(6)	(7)	(13)
Vested Terminations:	(4)	(4)	(8)
Retirements:	(4)	(2)	(6)
Deaths, Transfers:	0	0	0
Total Increases/(Decreases):	(14)	(13)	(27)
New Entrants during 2013-2014: - includes rehires/reinstatements	13	24	37
Net Change:	(1)	11	10
Number of Active Participants as of July 1, 2014:	129	209	338
Also as of July 1, 2014:			
**Total Vested Terminated:	12	18	30
Total Retired:	51	48	99
TOTAL PARTICIPANTS:	192	275	467

\* Active participants include Late Retirees and exclude Inactives.

\*\* Includes participants due refunds of contributions and interest,  
and other inactive participants who may not have terminated.

## TOWN OF NEWTOWN PENSION PLAN

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: Base Salary as of July 1 each year. For departments that do not report base salary, actual earnings from prior plan year are used. Final Average Compensation includes the participants five (5) highest consecutive years.

Participation: Eligibility - Service: 6 Months  
 Maximum Age: 60

Entry Date: On the first day of the month following satisfaction of eligibility, with the participant's election to make employee contributions (2% of base salary).

Service: Continuous employment with the Town.

Credited Service: Service used in the determination of plan benefits. Includes all service except:

- (1) Service in excess of 30 years.
- (2) Service after July 1, 1965 during which an employee could have made employee contributions but did not.
- (3) Service prior to July 1, 1965 if an employee did not elect to be covered on that date.

Normal Retirement Benefit: Greater of:

- (1) 2% of Final Average Compensation times years of Credited Service, less 50% of Social Security (at SSNRA),
- or
- (2) 1.15% of Final Average Compensation times years of Credited Service.

If a participant retires on or after his Normal Retirement Age (earlier of 30 years of Service or age 65), he will receive an additional temporary benefit equal to 50% of Social Security from his retirement date to his 65th birthday.

Normal Form of Benefit: Modified Cash Refund Annuity.

Death Benefits: Greater of Qualified Survivor Annuity or 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. Town Hall contract employees and department heads are eligible for 100% vesting after 5 years of Credited Service.

## TOWN OF NEWTOWN PENSION PLAN

APPENDIX BACTUARIAL ASSUMPTIONSFUNDING METHOD

Projected unit credit with a 15 years fixed amortization of the current unfunded or overfunded Accrued Liability.

INTEREST ASSUMPTION

7.50% Compounded Annually.

MORTALITY ASSUMPTION

2014 IRS Standard IRS Post-Retirement Pension Mortality (13-M/F Pos).

TURNOVER

Participants are assumed to terminate at the following rates:

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	10 %	15 %
30	7½	10
35	5	7½
40	3	5
45	1½	2½
50	0	0

SALARY SCALE & SOCIAL SECURITY BENEFITS

Salaries are assumed to increase at 3% per year. Since prospective salaries are reported, the increase applies after the end of the valuation year. Social Security laws projected using 3% COLA, with increases of 3% for the TWB and the NAMW.

RETIREMENT AGE

Participants are assumed to retire 50% of the time at their Normal Retirement Age and the remainder of the time at age 65. Participants past age 65 are assumed to retire one year after the valuation date.

ESTIMATED EXPENSES

Direct expenses of the trust are assumed to be \$13,000.

## TOWN OF NEWTOWN ELECTED OFFICIALS PENSION PLAN

## ALLOCATION REPORT for the Period

July 1, 2013 to June 30, 2014

	BEGINNING BALANCE	PAYMENTS	CONTRI- BUTIONS	13.89% INVESTMENT EARNINGS	ENDING BALANCE
<u>DEBBIE AURELIA</u>					
EMPLOYER ACCOUNT	31,224.29	0.00	4,139.70	4,889.87	40,253.86
EMPLOYEE ACCOUNT	10,380.22	0.00	1,379.90	1,538.10	13,298.22
	-----	-----	-----	-----	-----
Participant Total	41,604.51	0.00	5,519.60	6,427.97	53,552.08
<u>PATRICIA LLODRA</u>					
EMPLOYER ACCOUNT	19,629.35	0.00	6,079.11	3,537.25	29,245.71
EMPLOYEE ACCOUNT	6,383.21	0.00	2,026.37	1,027.66	9,437.24
	-----	-----	-----	-----	-----
Participant Total	26,012.56	0.00	8,105.48	4,564.91	38,682.95
<u>SUSAN MARCINEK</u>					
EMPLOYER ACCOUNT	14,939.53	0.00	2,751.75	2,442.33	20,133.61
EMPLOYEE ACCOUNT	4,924.42	0.00	917.25	747.93	6,589.60
	-----	-----	-----	-----	-----
Participant Total	19,863.95	0.00	3,669.00	3,190.26	26,723.21
<u>PLAN TOTALS</u>					
EMPLOYER ACCOUNT	65,793.17	0.00	12,970.56	10,869.45	89,633.18
EMPLOYEE ACCOUNT	21,687.85	0.00	4,323.52	3,313.69	29,325.06
	-----	-----	-----	-----	-----
PLAN TOTALS	87,481.02	0.00	17,294.08	14,183.14	118,958.24

Note: All employee accounts are 100% vested. Employer's portion is  
100% vested upon attainment of age 50, regardless of employment status.