



# **GASB 74/75 INTERIM ACTUARIAL VALUATION**

## **Fiscal Year Ending October 31, 2022**

# **CITY OF EAST PROVIDENCE**

### **CONTACT**

**Giovanni Gomez, ASA, EA, MAAA**  
giovanni.gomezperez@nyhart.com

### **PHONE**

General (317) 845-3500

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**June 12, 2023**

**Malcolm Moore**  
**City of East Providence**  
**145 Taunton Ave.**  
**East Providence, RI 02914**

This report summarizes the interim GASB actuarial valuation for the City of East Providence 2021/22 fiscal year . To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No . 74 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). This report may not be appropriate for other purposes. Please contact Nyhart prior to disclosing this report to any other party or relying on its content for any purpose other than that explained above. Failure to do so may result in misrepresentation or misinterpretation of this report.

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor . Asset information has been provided to us by the trustee. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based . When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement . We are not aware of any significant issues with and have relied on the data provided.

The discount rate, expected rate of return on assets, other economic assumptions, and demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. Evaluation of the reasonableness of the expected rate of return on assets was outside the scope of our assignment. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan . All calculations have been made in accordance with generally accepted actuarial principles and practice .

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); 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 .

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 that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

Should you have any questions please do not hesitate to contact us.



Giovanni Gomez, ASA, EA, MAAA  
Actuary



Cody Kocher, ASA, MAAA  
Actuary

# Executive Summary

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending October 31, 2022 compared to the prior fiscal year as shown in the City's Notes to Financial Statement.

|                                  | As of October 31, 2021 | As of October 31, 2022 |
|----------------------------------|------------------------|------------------------|
| <b>Total OPEB Liability</b>      | \$ 42,906,585          | \$ 43,999,083          |
| <b>Actuarial Value of Assets</b> | \$ (29,596,714)        | \$ (24,035,488)        |
| <b>Net OPEB Liability</b>        | \$ 13,309,871          | \$ 19,963,595          |
| <b>Funded Ratio</b>              | 69.0%                  | 54.6%                  |

|  | FY 2020/21   | FY 2021/22   |
|--|--------------|--------------|
| <b>OPEB Expense</b>                        | \$ 1,253,790 | \$ 2,672,433 |
| <b>Annual Employer Contributions</b>       | \$ 4,625,490 | \$ 3,724,219 |
| <b>Actuarially Determined Contribution</b> | \$ 3,462,906 | \$ 3,698,596 |

|                                  | As of October 31, 2021 | As of October 31, 2022 |
|----------------------------------|------------------------|------------------------|
| <b>Discount Rate</b>             | 7.00%                  | 6.00%                  |
| <b>Expected Return on Assets</b> | 7.00%                  | 7.00%                  |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Schedule of Changes in Net OPEB Liability and Related Ratios

| OPEB Liability   | FY 2021/22           | FY 2020/21           | FY 2019/20           | FY 2018/19           | FY 2017/18           |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Total OPEB Liability</b>                              |                      |                      |                      |                      |                      |
| Total OPEB Liability - beginning of year                 | \$ 42,906,585        | \$ 40,261,604        | \$ 38,221,341        | \$ 44,217,599        | \$ 42,820,046        |
| Service cost   | 1,620,612            | 1,486,466            | 1,430,746            | 1,754,085            | 1,639,332            |
| Interest   | 2,989,642            | 2,803,213            | 2,678,390            | 3,098,608            | 3,000,593            |
| Change of benefit terms                                  | 0                    | 2,553                | 0                    | 0                    | 0                    |
| Changes in assumptions                                   | 3,004,079            | 1,839,950            | 0                    | (345,480)            | 0                    |
| Differences between expected and actual experience       | (2,823,239)          | (24,295)             | 757,669              | (7,033,053)          | 0                    |
| Benefit payments   | (3,698,596)          | (3,462,906)          | (2,826,542)          | (3,470,418)          | (3,242,372)          |
| Net change in total OPEB liability                       | \$ 1,092,498         | \$ 2,644,981         | \$ 2,040,263         | \$ (5,996,258)       | \$ 1,397,553         |
| Total OPEB Liability - end of year                       | \$ 43,999,083        | \$ 42,906,585        | \$ 40,261,604        | \$ 38,221,341        | \$ 44,217,599        |
| <b>Plan Fiduciary Net Position</b>                       |                      |                      |                      |                      |                      |
| Plan fiduciary net position - beginning of year          | \$ 29,596,714        | \$ 22,689,142        | \$ 20,671,562        | \$ 17,232,670        | \$ 15,908,749        |
| Contributions - employer                                 | 3,724,219            | 4,625,490            | 3,409,875            | 4,698,812            | 4,445,961            |
| Contributions - active employees                         | 0                    | 0                    | 230,351              | 0                    | 0                    |
| Net investment income                                    | (5,517,166)          | 5,813,016            | 1,250,059            | 2,250,197            | 157,530              |
| Benefit payments   | (3,698,596)          | (3,462,906)          | (2,826,542)          | (3,470,418)          | (3,242,372)          |
| Trust administrative expenses                            | (69,683)             | (68,028)             | (46,163)             | (39,699)             | (37,198)             |
| Net change in plan fiduciary net position                | \$ (5,561,226)       | \$ 6,907,572         | \$ 2,017,580         | \$ 3,438,892         | \$ 1,323,921         |
| Plan fiduciary net position - end of year                | \$ 24,035,488        | \$ 29,596,714        | \$ 22,689,142        | \$ 20,671,562        | \$ 17,232,670        |
| <b>Net OPEB Liability - end of year</b>                  | <b>\$ 19,963,595</b> | <b>\$ 13,309,871</b> | <b>\$ 17,572,462</b> | <b>\$ 17,549,779</b> | <b>\$ 26,984,929</b> |
| Plan fiduciary net position as % of total OPEB liability | 54.6%                | 69.0%                | 56.4%                | 54.1%                | 39.0%                |
| Covered employee payroll                                 | \$ 25,923,181        | \$ 25,005,463        | \$ 24,900,503        | \$ 24,116,710        | \$ 24,357,724        |
| Net OPEB liability as % of covered payroll               | 77.0%                | 53.2%                | 70.6%                | 72.8%                | 110.8%               |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Schedule of Changes in Net OPEB Liability and Related Ratios (Continued)

| OPEB Liability   | FY 2016/17           |
|--|----------------------|
| <b>Total OPEB Liability</b>                              |                      |
| Total OPEB Liability - beginning of year                 | \$ 36,688,606        |
| Service cost   | 1,598,797            |
| Interest   | 2,598,530            |
| Change of benefit terms                                  | (2,890,110)          |
| Changes in assumptions                                   | 1,734,512            |
| Differences between expected and actual experience       | 5,460,910            |
| Benefit payments   | (2,371,199)          |
| Net change in total OPEB liability                       | \$ 6,131,440         |
| Total OPEB Liability - end of year                       | \$ 42,820,046        |
| <b>Plan Fiduciary Net Position</b>                       |                      |
| Plan fiduciary net position - beginning of year          | \$ 11,181,267        |
| Contributions - employer                                 | 5,216,989            |
| Contributions - active employees                         | 0                    |
| Net investment income                                    | 1,911,235            |
| Benefit payments   | (2,371,199)          |
| Trust administrative expenses                            | (29,543)             |
| Net change in plan fiduciary net position                | \$ 4,727,482         |
| Plan fiduciary net position - end of year                | \$ 15,908,749        |
| <b>Net OPEB Liability - end of year</b>                  | <b>\$ 26,911,297</b> |
| Plan fiduciary net position as % of total OPEB liability | 37.2%                |
| Covered employee payroll                                 | \$ 23,591,016        |
| Net OPEB liability as % of covered payroll               | 114.1%               |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Schedule of Employer Contributions

The Actuarially Determined Contributions (ADC) shown below are based on the Annual Required Contribution (ARC) calculated in prior GASB 45 actuarial valuations as shown in the City's financial statements.

|   | FY 2021/22    | FY 2020/21     | FY 2019/20    | FY 2018/19    | FY 2017/18    |
|---|---------------|----------------|---------------|---------------|---------------|
| Actuarially Determined Contribution (ADC) | \$ 3,698,596  | \$ 3,462,906   | \$ 2,995,002  | \$ 4,100,211  | \$ 3,945,974  |
| Contributions in relation to the ADC      | 3,724,219     | 4,625,490      | 3,409,875     | 4,698,812     | 4,445,961     |
| Contribution deficiency/(excess)          | \$ (25,623)   | \$ (1,162,584) | \$ (414,873)  | \$ (598,601)  | \$ (499,987)  |
| Covered employee payroll                  | \$ 25,923,181 | \$ 25,005,463  | \$ 24,900,503 | \$ 24,116,710 | \$ 24,357,724 |
| Contribution as a % of covered payroll    | 14.4%         | 18.5%          | 13.7%         | 19.5%         | 18.3%         |

|   | FY 2016/17     | FY 2015/16     | FY 2014/15     | FY 2013/14    | FY 2012/13    |
|---|----------------|----------------|----------------|---------------|---------------|
| Actuarially Determined Contribution (ADC) | \$ 4,100,391   | \$ 3,645,401   | \$ 3,645,401   | \$ 4,330,882  | \$ 4,330,882  |
| Contributions in relation to the ADC      | 5,216,989      | 7,772,836      | 8,721,571      | 3,424,015     | 3,424,015     |
| Contribution deficiency/(excess)          | \$ (1,116,598) | \$ (4,127,435) | \$ (5,076,170) | \$ 906,867    | \$ 906,867    |
| Covered employee payroll                  | \$ 23,591,016  | \$ 22,427,960  | \$ 22,427,960  | \$ 20,204,098 | \$ 20,204,098 |
| Contribution as a % of covered payroll    | 22.1%          | 34.7%          | 38.9%          | 16.9%         | 16.9%         |



# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## OPEB Expense

| OPEB Expense  | FY 2021/22     | FY 2020/21     |
|---|----------------|----------------|
| Discount Rate   |                |                |
| Beginning of year   | 7.00%          | 7.00%          |
| End of year   | 6.00%          | 7.00%          |
|   |                |                |
| Service cost  | \$ 1,620,612   | \$ 1,486,466   |
| Interest  | 2,989,642      | 2,803,213      |
| Change of benefit terms   | 0              | 2,553          |
| Projected earnings on OPEB plan investments                                   | (2,070,254)    | (1,625,901)    |
| Reduction for contributions from active employees                             | 0              | 0              |
| OPEB plan administrative expenses   | 69,683         | 68,028         |
|   |                |                |
| Current period recognition of deferred outflows / (inflows) of resources      |                |                |
| Differences between expected and actual experience                            | \$ (1,303,275) | \$ (899,955)   |
| Changes in assumptions  | 642,650        | 213,496        |
| Net difference between projected and actual earnings on OPEB plan investments | 723,375        | (794,110)      |
|   |                |                |
| Total current period recognition  | \$ 62,750      | \$ (1,480,569) |
|   |                |                |
| Total OPEB expense  | \$ 2,672,433   | \$ 1,253,790   |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Deferred Outflows / (Inflows) of Resources

Deferred Outflows / (Inflows) of Resources represents the following items that have not been recognized in the OPEB Expense :

1. Differences between expected and actual experience of the OPEB plan
2. Changes of assumptions
3. Differences between projected and actual earnings in OPEB plan investments (for funded plans only)

The initial amortization period for the first two items noted above is based on expected future service lives while the difference between the projected and actual earnings in OPEB plan investment is amortized over five years. All balances are amortized linearly on a principal only basis and new bases will be created annually for each of the items above.

| Differences between expected and actual experience for FYE | Initial Balance | Initial Amortization Period | Annual Recognition | Unamortized Balance as of October 31, 2022 |
|--|-----------------|-----------------------------|--------------------|--|
| October 31, 2018   | \$ 0            | N/A                         | \$ 0               | \$ 0                                       |
| October 31, 2019   | \$ (7,033,053)  | 7                           | \$ (1,004,722)     | \$ (3,014,165)                             |
| October 31, 2020   | \$ 757,669      | 7                           | \$ 108,238         | \$ 432,955                                 |
| October 31, 2021   | \$ (24,295)     | 7                           | \$ (3,471)         | \$ (17,353)                                |
| October 31, 2022   | \$ (2,823,239)  | 7                           | \$ (403,320)       | \$ (2,419,919)                             |

| Changes in assumptions for FYE | Initial Balance | Initial Amortization Period | Annual Recognition | Unamortized Balance as of October 31, 2022 |
|--------------------------------|-----------------|-----------------------------|--------------------|--|
| October 31, 2018               | \$ 0            | N/A                         | \$ 0               | \$ 0                                       |
| October 31, 2019               | \$ (345,480)    | 7                           | \$ (49,354)        | \$ (148,064)                               |
| October 31, 2020               | \$ 0            | N/A                         | \$ 0               | \$ 0                                       |
| October 31, 2021               | \$ 1,839,950    | 7                           | \$ 262,850         | \$ 1,314,250                               |
| October 31, 2022               | \$ 3,004,079    | 7                           | \$ 429,154         | \$ 2,574,925                               |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Deferred Outflows / (Inflows) of Resources (Continued)

| Net Difference between projected and actual earnings in OPEB plan investments for FYE | Initial Balance | Initial Amortization Period | Annual Recognition | Unamortized Balance as of October 31, 2022 |
|---|-----------------|-----------------------------|--------------------|--|
| October 31, 2018  | \$ 996,216      | 5                           | \$ 199,244         | \$ 0                                       |
| October 31, 2019  | \$ (1,003,009)  | 5                           | \$ (200,602)       | \$ (200,601)                               |
| October 31, 2020  | \$ 223,359      | 5                           | \$ 44,672          | \$ 89,343                                  |
| October 31, 2021  | \$ (4,187,115)  | 5                           | \$ (837,423)       | \$ (2,512,269)                             |
| October 31, 2022  | \$ 7,587,420    | 5                           | \$ 1,517,484       | \$ 6,069,936                               |

| As of fiscal year ending October 31, 2022                                     | Deferred Outflows   | Deferred Inflows      |
|---|---------------------|-----------------------|
| Differences between expected and actual experience                            | \$ 432,955          | \$ (5,451,437)        |
| Changes in assumptions  | 3,889,175           | (148,064)             |
| Net difference between projected and actual earnings in OPEB plan investments | 3,446,409           | 0                     |
| <b>Total</b>  | <b>\$ 7,768,539</b> | <b>\$ (5,599,501)</b> |

## Annual Amortization of Deferred Outflows / (Inflows)

The balances as of October 31, 2022 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

| FYE        | Balance      |
|------------|--------------|
| 2023       | \$ (136,493) |
| 2024       | \$ 64,107    |
| 2025       | \$ 19,435    |
| 2026       | \$ 1,910,938 |
| 2027       | \$ 285,215   |
| Thereafter | \$ 25,836    |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Sensitivity Results

The following presents the Net OPEB Liability as of October 31, 2022, calculated using the discount rate assumed and what it would be using a 1% higher and 1% lower discount rate.

- The current discount rate is 6.00%.
- The 1% decrease in discount rate would be 5.00%.
- The 1% increase in discount rate would be 7.00%.

| As of October 31, 2022 | Net OPEB Liability |
|------------------------|--------------------|
| 1% Decrease            | \$ 23,281,408      |
| Current Discount Rate  | \$ 19,963,595      |
| 1% Increase            | \$ 16,959,518      |

The following presents the Net OPEB Liability as of October 31, 2022, using the health care trend rates assumed and what it would be using 1% higher and 1% lower health care trend rates.

- The current health care trend rate starts at an initial rate of 7.50%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 6.50%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 8.50%, decreasing to an ultimate rate of 5.50%.

| As of October 31, 2022 | Net OPEB Liability |
|------------------------|--------------------|
| 1% Decrease            | \$ 15,870,504      |
| Current Trend Rates    | \$ 19,963,595      |
| 1% Increase            | \$ 24,692,083      |

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Asset Information

| Asset Breakdown                        | FY 2020/21 |                   | FY 2021/22 |                   |
|--|------------|-------------------|------------|-------------------|
| <b>Assets</b>                          |            |                   |            |                   |
| Cash and deposits                      | \$         | 0                 | \$         | 0                 |
| Securities lending cash collateral     |            | 0                 |            | 0                 |
| Total cash                             | \$         | 0                 | \$         | 0                 |
| Receivables                            |            |                   |            |                   |
| Contributions                          | \$         | 0                 | \$         | 0                 |
| Accrued interest                       |            | 0                 |            | 0                 |
| Total receivables                      | \$         | 0                 | \$         | 0                 |
| Investments                            |            |                   |            |                   |
| Fixed income                           | \$         | 7,399,179         | \$         | 6,008,872         |
| Equities                               |            | 19,829,798        |            | 16,103,777        |
| Mutual Funds                           |            | 2,367,737         |            | 1,922,839         |
| Total investments                      | \$         | 29,596,714        | \$         | 24,035,488        |
| Total Assets                           | \$         | 29,596,714        | \$         | 24,035,488        |
| <b>Liabilities</b>                     |            |                   |            |                   |
| Payables                               |            |                   |            |                   |
| Investment management fees             | \$         | 0                 | \$         | 0                 |
| Securities lending expense             |            | 0                 |            | 0                 |
| Total liabilities                      | \$         | 0                 | \$         | 0                 |
| <b>Net Position Restricted to OPEB</b> | <b>\$</b>  | <b>29,596,714</b> | <b>\$</b>  | <b>24,035,488</b> |

\* Asset Breakdown is the expected make-up of the trust based on the target asset allocation and does not represent actual figures.

# GASB Disclosures

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

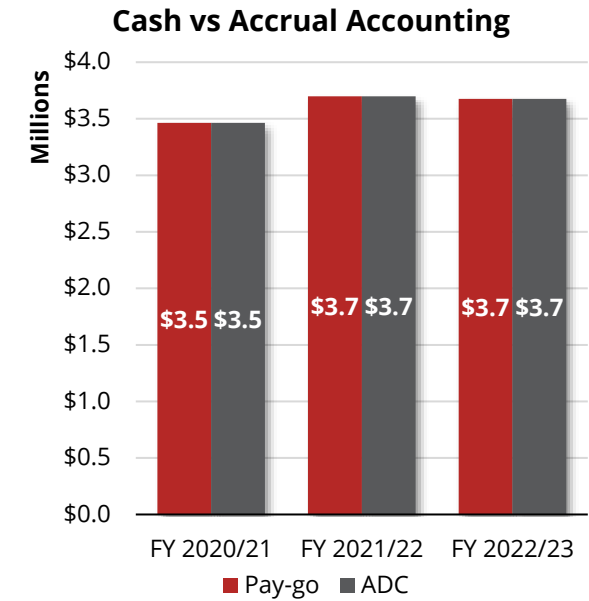
## Asset Information (Continued)

| Asset Reconciliation                                   | FY 2020/21    | FY 2021/22     |
|--|---------------|----------------|
| <b>Additions</b>                                       |               |                |
| Contributions Received                                 |               |                |
| Employer   | \$ 4,625,490  | \$ 3,724,219   |
| Active employees                                       | 0             | 0              |
| Total contributions                                    | \$ 4,625,490  | \$ 3,724,219   |
| Investment Income                                      |               |                |
| Net increase in fair value of investments              | \$ 5,813,016  | \$ (5,517,166) |
| Interest and dividends                                 | 0             | 0              |
| Investment expense, other than from securities lending | 0             | 0              |
| Securities lending income                              | 0             | 0              |
| Securities lending expense                             | 0             | 0              |
| Net investment income                                  | \$ 5,813,016  | \$ (5,517,166) |
| Total additions  | \$ 10,438,506 | \$ (1,792,947) |
| <b>Deductions</b>                                      |               |                |
| Benefit payments                                       | \$ 3,462,906  | \$ 3,698,596   |
| Administrative expenses                                | 68,028        | 69,683         |
| Other  | 0             | 0              |
| Total deductions                                       | \$ 3,530,934  | \$ 3,768,279   |
| Net increase in net position                           | \$ 6,907,572  | \$ (5,561,226) |
| Net position restricted to OPEB                        |               |                |
| Beginning of year                                      | \$ 22,689,142 | \$ 29,596,714  |
| End of year  | \$ 29,596,714 | \$ 24,035,488  |

# Actuarially Determined Contributions

City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

|  | FY 2021/22                            | FY 2022/23                            | FY 2023/24 <sup>1</sup>               |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| Discount rate  | 7.00%                                 | 7.00%                                 | 7.00%                                 |
| Payroll growth factor used for amortization                    | N/A                                   | N/A                                   | N/A                                   |
| Actuarial cost method  | Entry Age Normal<br>Level % of Salary | Entry Age Normal<br>Level % of Salary | Entry Age Normal<br>Level % of Salary |
| Amortization type  | Level Dollar                          | Level Dollar                          | Level Dollar                          |
| Amortization period (years)                                    | 25                                    | 24                                    | 23                                    |
| Actuarial accrued liability (AAL) – beginning of year          | \$ 42,906,585                         | \$ 40,995,006                         | \$ 42,056,252                         |
| Actuarial value of assets – beginning of year                  | (29,596,714)                          | (24,035,488)                          | (26,173,020)                          |
| Unfunded AAL – beginning of year                               | \$ 13,309,871                         | \$ 16,959,518                         | \$ 15,883,232                         |
| Normal Cost  | \$ 1,620,612                          | \$ 1,657,701                          | \$ 1,707,432                          |
| Amortization of UAAL   | 1,067,408                             | 1,381,947                             | 1,316,882                             |
| Total normal cost plus amortization                            | \$ 2,688,020                          | \$ 3,039,648                          | \$ 3,024,314                          |
| Interest to the end of year                                    | 188,161                               | 212,775                               | 211,702                               |
| Actuarially Determined Contribution – Preliminary              | \$ 2,876,181                          | \$ 3,252,423                          | \$ 3,236,016                          |
| Expected benefit payments                                      | 3,698,596                             | 3,462,989                             | 3,582,918                             |
| <b>Actuarially Determined Contribution – Final<sup>2</sup></b> | <b>\$ 3,698,596</b>                   | <b>\$ 3,462,989</b>                   | <b>\$ 3,582,918</b>                   |



**Actuarially Determined Contribution (ADC)** is the target or recommended contribution to a defined benefit OPEB plan, which if paid on an ongoing basis, will provide sufficient resources to fund future costs for services to be earned and liabilities attributed to past services. This is typically higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

<sup>1</sup> FY 2023/24 ADC is estimated based on projected assets and liabilities as of November 1, 2023.

<sup>2</sup> Set to be the greater of the preliminary ADC and expected benefit payments.

# Discussion of Discount Rates

## City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

Under GASB 74, the discount rate used in valuing OPEB liabilities for funded plans as of the Measurement Date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

For the current valuation:

1. The long-term expected rate of return on the City's OPEB plan investment is assumed to be 7.00%. This was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage and adding in expected inflation (2.20%) and adjusted by expected volatility provided by the investment advisor. The best estimates of arithmetic nominal rates of return for each major asset class included in the OPEB Plan's target asset allocation as of December 31, 2022 are summarized in the following table.
2. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.

| Asset Class              | Target Allocation | L/T Expected Real ROR |
|--------------------------|-------------------|-----------------------|
| U.S. Equity              | 41.00%            | 6.50%                 |
| Non-U.S. Equity          | 26.00%            | 8.30%                 |
| U.S. Aggregate Bonds     | 10.00%            | 4.50%                 |
| Intermediate-Term Credit | 7.00%             | 5.00%                 |
| Short-Term Credit        | 3.00%             | 4.60%                 |
| Non-U.S. Bonds           | 5.00%             | 4.20%                 |
| REITs                    | 8.00%             | 6.90%                 |
| Total                    | 100.00%           | 6.52%                 |

| Yield as of                                      | October 31, 2021 | October 31, 2022 |
|--|------------------|------------------|
| Bond Buyer Go 20-Bond Municipal Bond Index       | 2.28%            | 4.16%            |
| S&P Municipal Bond 20-Year High Grade Rate Index | 2.41%            | 4.90%            |
| Fidelity 20-Year Go Municipal Bond Index         | 2.15%            | 4.62%            |
| Bond Index Range                                 | 2.15% - 2.41%    | 4.16% - 4.90%    |

3. The final equivalent single discount rate used for this year's valuation is 6.00% for accounting disclosure purposes based on the following assumptions:
  - a. The City is expected to deposit \$500,000 pre-funding contributions annually to the Trust.
  - b. Pay-go costs will be fully paid by the City until at least FYE 2029.

The final discount rate is a blended rate between the fully funded rate of return and the municipal bond rate based on the Trust's ability to fund future benefit payments. The expected cross-over-point is 2045.



# Summary of Key Actuarial Assumptions

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## City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

For a complete summary of actuarial methods and assumptions, refer to the GASB 74/75 actuarial valuation report for the fiscal year ending October 31, 2021.

### Measurement Date

For the fiscal year ending October 31, 2022, an October 31, 2022 measurement date was used.

### Actuarial Valuation Date

November 1, 2021

Liabilities as of October 31, 2022 are based on the November 1, 2021 valuation projected to October 31, 2022, reflecting actual premium rates and discount rate changes from 2021/22 to 2022/23.

Liabilities as of October 31, 2021 are based on an actuarial valuation date of November 1, 2021 with no adjustments.

### Discount Rate

7.00% as of October 31, 2021 and 6.00% as of October 31, 2022 for accounting disclosure purposes.

7.00% for funding disclosure purposes (in calculating the Actuarially Determined Contribution).

Refer to the Discussion of Discount Rates section for more information on selection of the discount rate.

The discount rate was chosen by the plan sponsor based on the information provided in the "Discussion of Discount Rates" section above.

### Payroll Growth

Wage inflation of 3.00% plus merit/productivity increases assumed in the valuation are based on the MERS actuarial valuation as of June 30, 2021 for general employees, and the City of East Providence Police and Firefighters Retirement System 2018 experience study for police and fire. The assumptions from these state-wide valuations provide reasonable estimates of experience for municipal employers such as the City of East Providence. Sample total salary increases are shown in the table below:

| YOS | Police / Fire | General |
|-----|---------------|---------|
| 0   | 4.00%         | 7.25%   |
| 5   | 10.00%        | 5.50%   |
| 10  | 4.94%         | 3.75%   |
| 15  | 4.93%         | 3.50%   |
| 20  | 4.93%         | 3.25%   |
| 21+ | 4.00%         | 3.25%   |

# Summary of Key Actuarial Assumptions

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City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

## Cost Method

Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where:

- Service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement; and
- Annual Service Cost is a constant percentage of the participant's salary that is assumed to increase according to the Payroll Growth.

## Health Care Trend Rates

| FYE  | Medical/Rx | FYE   | Medical/Rx |
|------|------------|-------|------------|
| 2022 | Actual     | 2026  | 6.0%       |
| 2023 | 7.5%       | 2027  | 5.5%       |
| 2024 | 7.0%       | 2028  | 5.0%       |
| 2025 | 6.5%       | 2029+ | 4.5%       |

## Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

## Models

### ProVal

Valuation software developed by Winklevoss Technologies, LLC. This software is widely used for the purpose of performing postretirement medical valuations. We coded the plan provisions, assumptions, methods, and participant data summarized in this report, and reviewed the liability and cost outputs for reasonableness. We are not aware of any weakness or limitations in the software and have determined it is appropriate for performing this valuation.

### HealthMAPS Manual

Rating manual developed by WTW. Aging factors are used to develop per capita costs by age for plans with limited credible exposure to develop plan-specific factors. We are not aware of any weakness or limitations in the factors and have determined they are appropriate for performing this valuation.

# Actuary's Notes

## City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

Interim year valuation results have been projected from the prior year's valuation, with adjustments for actual premium rate changes from 2021/22 to 2022/23. The impact of this change was a decrease in liabilities.

The discount rate as of the Measurement Date has been updated based on a blended rate of the yield of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) and the Trust's fully funded rate of return. The discount rate for accounting disclosures is 7.00% as of October 31, 2021 and 6.00% as of October 31, 2022. This change has caused an increase in liabilities

### Medical Benefits

A comparison of the monthly premiums by plan (excluding WRI cost) effective on July 1, 2021 and July 1, 2022 are as shown below.

| Pre-65 Retiree Plan     | Eff. 7/1/2021 |             | Eff. 7/1/2022 |             |
|-------------------------|---------------|-------------|---------------|-------------|
|                         | Single        | Family      | Single        | Family      |
| 0019 Healthmate         | \$ 790.20     | \$ 1,947.18 | \$ 803.63     | \$ 1,980.28 |
| 0031 Healthmate         | \$ 700.07     | \$ 1,717.13 | \$ 711.97     | \$ 1,746.32 |
| 0005 Healthmate         | \$ 827.86     | \$ 2,040.07 | \$ 841.93     | \$ 2,074.75 |
| 0028 Blue Solutions HSA | \$ 606.79     | \$ 1,495.23 | \$ 617.11     | \$ 1,520.65 |
| 0012 Classic            | \$ 973.48     | \$ 2,398.75 | \$ 990.03     | \$ 2,439.53 |
| Post-65 Retiree Plan    | Single        | Family      | Single        | Family      |
| Plan 65 C               | \$ 189.70     | \$ 379.40   | \$ 191.43     | \$ 382.86   |
| Plan 65 G               | \$ 169.06     | \$ 338.12   | \$ 167.82     | \$ 335.64   |

# GASB Results by Group

## City of East Providence Interim GASB 74/75 Valuation for Fiscal Year Ending October 31, 2022

Below is the summary of the GASB results for the fiscal year ending October 31, 2022 based on the Entry Age Normal Level % of Pay cost method with a discount rate of 6.00%.

| Fund         | Total OPEB Liability   |                   | Plan Fiduciary Net Position <sup>1</sup> |                   | Net OPEB Liability     |                   |
|--------------|------------------------|-------------------|--|-------------------|------------------------|-------------------|
|              | As of October 31, 2022 |                   | As of October 31, 2022                   |                   | As of October 31, 2022 |                   |
| Water        | \$                     | 690,414           | \$                                       | 377,154           | \$                     | 313,260           |
| All Others   | \$                     | 43,308,669        | \$                                       | 23,658,334        | \$                     | 19,650,334        |
| <b>Total</b> | <b>\$</b>              | <b>43,999,083</b> | <b>\$</b>                                | <b>24,035,488</b> | <b>\$</b>              | <b>19,963,595</b> |

| Fund         | OPEB Expense |                  |
|--------------|--------------|------------------|
|              | FY 2021/22   |                  |
| Water        | \$           | 41,935           |
| All Others   | \$           | 2,630,498        |
| <b>Total</b> | <b>\$</b>    | <b>2,672,433</b> |

<sup>1</sup> Plan Fiduciary Net Position and OPEB Expense by Fund is estimated based on the allocation of the Total OPEB Liability as of October 31, 2022.