



HOOKER & HOLCOMBE, INC.  
Benefit Consultants and Actuaries

65 LaSalle Road | West Hartford, CT 06107-2397 | Founded in 1956

*Confidential*

September 17, 2014

Mr. Stan Soby  
First Selectman  
Office of the First Selectman  
Town of Colchester  
127 Norwich Avenue  
Colchester, CT 06415

***Re: Town of Colchester Police Pension Plan***

Dear Mr. Soby:

We have completed the July 1, 2014 valuation for the Town of Colchester Police Pension Plan. Please see the attached three Exhibits. Exhibit I shows the calculation of the Actuarially Determined Employer Contribution (ADEC) for the fiscal year beginning 7/1/2015 and ending 6/30/2016. This contribution amount is \$119,514.

Exhibit II is a brief outline of the Plan. Exhibit III describes the actuarial methods and assumptions that we used to complete this study. Exhibit IV describes the impact of a new Accounting Standard that is effective for FYE 2015.

If you have any questions, please let me know.

Sincerely,

Timothy A. Ryor, FSPA, FCA, MAAA, EA  
Senior Vice President and Consulting Actuary

/mmh  
Enclosure

c: N. Maggie Cosgrove, CFO  
Maggie Wasicki

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## Certification

This report presents the results of the July 1, 2014 Actuarial Valuation for the Town of Colchester Police Pension Plan for the purpose of estimating the funded status of the Plan and determining the Actuarially Determined Employer Contribution (ADEC) for the fiscal year ending June 30, 2015. This report is intended to satisfy the requirements of Connecticut General Statute 7-450a. This report may not be appropriate for any other purpose.

The valuation has been performed in accordance with generally accepted actuarial principles and practices. It is intended to comply with all applicable Actuarial Standards of Practice.

I certify that the actuarial assumptions and methods that were selected by me and represent my best estimate of anticipated actuarial experience under the Plan.

In preparing this valuation, I have relied on employee data provided by the Town, and on asset and contribution information provided by the Town. I have audited neither the employee data nor the financial information, although I have reviewed them for reasonableness.

The results in this valuation report are based on the Plan as summarized in the *Plan Provisions* section of this report and the actuarial assumptions and methods detailed in the *Description of Actuarial Methods and Assumptions* section of this report.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: 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 or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

I am a member of the American Academy of Actuaries and meet its Qualification Standards to render the actuarial opinion contained herein.



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Timothy A. Ryor, FSPA, FCA, MAAA, Enrolled Actuary  
14-05126

September 17, 2014

**Exhibit I**  
**Town of Colchester Police Pension Plan**  
**Development of Town Contribution for 2015-2016**

**I. Plan Liabilities**

A. Present Value of Future Benefit Payments	\$3,690,424
B. Actuarial Accrued Liability (EAN Method)	\$1,583,823
C. Plan Assets	\$1,287,557
D. Unfunded Actuarial Accrued Liability = (B)-(C)	\$296,266
E. Funded % = (C) ÷ (B)	81.3%

**II. Employer Contribution for Valuation Year**

A. Normal Cost	
1. Total Normal Cost	\$167,993
2. Expected Employee Contributions	\$88,961
3. Employer Normal Cost = (1) - (2)	\$79,032
B. Amortization of Unfunded Actuarial Accrued Liability (15 yrs)	\$31,222
C. Total Beginning-of-Year Employer Contribution= (A3) + (B)	\$110,254
D. Interest on (C.) to the middle of the Year = (C.) X 3.75%	\$4,135
E. Valuation Year Employer Contribution = (C.) + (D.)	\$114,389
F. Expected Valuation Year Covered Payroll	\$711,685
G. Employer Contribution as a % of Payroll	16.07%

**III. Actuarially Determined Employer Contribution (ADEC) for 2015-2016**

A. Expected ADEC Year Covered Payroll (II F. X 1.045)	\$743,711
<b>B. 2015-2016 ADEC (A. X II G.)</b>	<b>\$119,514</b>

**Exhibit II**  
**Town of Colchester Police Pension Plan**  
**Outline of Plan Provisions**

This is an overview of the provisions of the pension plan.

Effective Date of Plan:	July 1, 2005.
Eligibility for Retirement:	20 years of service.
Vesting:	10 years of service.
Service:	For eligibility, vesting and benefit accrual, no service is granted before 7/1/1999.
Average Salary;	Average of the 3 highest years of base salary.
Pension Benefit:	2.5% times average salary times years of service with a maximum pension of 60% of average salary.
Employee Contributions:	Employee will contribute 12.5% of pay.
Post-retirement COLA	2.5%.
Normal Form of Pension:	Life annuity.

**Exhibit III**  
**Town of Colchester Police Pension Plan**  
**Actuarial Assumptions and Methods**

**I. Actuarial Cost Method**

The Entry Age Normal actuarial cost method. Prior Valuation: The Projected Unit Credit actuarial cost method.

Amortization is a closed 15 years on a level dollar basis as of July 1, 2014.

Currently the asset valuation method is the market value of assets.

**II. Actuarial Assumptions**

Investment Return: 7.5% per year

Salary Increases: 3.0% inflation plus Service Merit Scale

Service	Rate
0	7.0%
1	6.0%
2	5.0%
3	4.5%
4	4.0%
5	3.5%
6	3.0%
7	2.5%
8	2.0%
9	1.5%
10-14	1.0%
≥15	0.5%

Prior Valuation: 4.5% per year

Mortality Table: RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, combined tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

Mortality Improvement: Projected to date of decrement using Scale AA (Generational Mortality).

Actuarial Assumptions and Methods  
continued

Assumed Retirement Date:

Service based table

Service	Rate
20	10%
21-23	5%
24	60%
25	30%
26	40%
27	70%
≥28	100%

Prior Valuation: Completion of 24 years of service.

Termination Prior to Retirement:

None.

Expenses:

Plan expenses are assumed to be paid by the Town outside of the pension plan.

## **Exhibit IV**

### **Town of Colchester Police Pension Plan**

### **New Accounting Standards**

In June of 2012, The Government Accounting Standards Board (GASB) issued statements 67 and 68. GASB 67 is a new standard that pertains to financial reporting for pension plans. In general, it replaces GASB 25 and it is effective for fiscal years beginning after June 15, 2013. GASB 68 is a new standard that pertains to accounting and financial reporting for pensions. In general, it replaces GASB 27 and it is effective for fiscal years beginning after June 15, 2014. Both statements replace the relevant provisions of GASB 50.

Currently, your annual financial report tracks the Net Pension Obligation (NPO) and the NPO is displayed in the footnote section of the annual financial report. With GASB 68, the NPO will no longer be tracked. A new item called Net Pension Liability (NPL) will be displayed not as a footnote but directly on your balance sheet. For both standards, liabilities are calculated using the Entry Age Normal Cost Method. In general, the NPL is EAN Accrued Liability less the Market Value of Assets. A table that displays the NPL for the Town's pension plan is below.

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Market Value Of Assets</u>	<u>Net Pension Liability</u>
July 1, 2010	666,290	374,488	291,802
July 1, 2011	808,518	559,948	248,570
July 1, 2012	1,176,552	702,577	473,975
July 1, 2013	1,421,160	945,646	475,514
July 1, 2014	1,583,823	1,287,557	296,266

In addition to replacing the NPO with NPL, the Annual Required Contribution (ARC) will also be eliminated. Even though the ARC will be eliminated, we will work with you to develop a contribution policy. The new term for this is called the Actuarially Determined Contribution (ADC). One possible ADC is to use the same concepts that were used to develop the ARC which would mean no change in the present funding policy.

Under the prior standards the ARC served as both the contribution policy and the accounting expense. As noted above the ARC is eliminated and replaced with the ADC with regard to the funding policy. The new pension expense will be quite different from the ARC and it has several components (including normal cost, interest cost, amortization components, actual return, and plan changes). The new pension expense will help reconcile the change in the Net Pension Liability each year. In addition, it will be more volatile than the ARC and so not suitable for use as a contribution policy.

If the Town wants to see how the pension expense works, please let us know and we will prepare a sample exhibit. Like the Net Pension Liability, the calculation of the pension expense is based upon the Entry Age Normal Cost Method and will no longer be a footnote but reported directly in the annual financial report.

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