Pension Plan of Town of West Warwick

Management Summary of 7/1/2015 Actuarial Valuation
March 7, 2016
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Town of West Warwick - 2015 Val Results
This report has been prepared for the primary purpose of summarizing the actuarial valuation for the Pension Plan of Town of West Warwick as of July 1, 2015, the GASB 67 & 68 accounting report as of June 30, 2015, and various other matters to be discussed with the Pension Board. To the best of our knowledge, the reports summarized herein present fair positions of the funded status of the plan in accordance with the Actuarial Standards of Practice as described by the American Academy of Actuaries, and are based on the plan provisions and assumptions summarized within each report.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such facts 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 or other additional cost or contribution requirement based on the plan’s funded status); and changes in plan provisions of applicable law. The scope of our assignment did not include an analysis of the potential range of future measurements.

Neither Nyhart nor any of its employees have any relationship with the plan or its sponsor which could impair or appear to impair the objectivity of this report. To the extent that this report or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law.

The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

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 which could materially affect the results contained herein.

Nyhart

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March 7, 2016
Date
Significant Changes for 2015

➢ **Actuarial Assumptions**
  – The mortality assumption changes described below increased the plan’s accrued liability by approximately 2% as of July 1, 2015.

<table>
<thead>
<tr>
<th>Valuation Year</th>
<th>Public Safety</th>
<th>Disabled</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Valuation</td>
<td>RP-2000 Blue Collar with generational projection per Scale AA</td>
<td>RP-2000 Disabled with generational projection per Scale AA</td>
<td>RP-2000 Healthy with generational projection per Scale AA</td>
</tr>
</tbody>
</table>

➢ **Actuarial Methods**
  – Historically, the recommended contribution was determined annually for the plan year beginning on the valuation date.
  – In an effort to expedite the recommended contribution calculations for town budgeting purposes, the recommended contribution is now based on the calculated contribution as a percentage of payroll from the prior valuation date. This percentage is applied to projected payroll for the following plan year.
Participant Information

Number Count

<table>
<thead>
<tr>
<th></th>
<th>7/1/2010</th>
<th>7/1/2011</th>
<th>7/1/2012</th>
<th>7/1/2013</th>
<th>7/1/2014</th>
<th>7/1/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disableds</td>
<td>50</td>
<td>52</td>
<td>54</td>
<td>55</td>
<td>56</td>
<td>58</td>
</tr>
<tr>
<td>Retirees/Beneficiaries</td>
<td>239</td>
<td>274</td>
<td>277</td>
<td>277</td>
<td>285</td>
<td>288</td>
</tr>
<tr>
<td>Deferred Vested</td>
<td>17</td>
<td>26</td>
<td>22</td>
<td>33</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Actives</td>
<td>348</td>
<td>309</td>
<td>321</td>
<td>297</td>
<td>299</td>
<td>304</td>
</tr>
</tbody>
</table>

Active Demographics

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Age</td>
<td>45.2</td>
<td>44.8</td>
<td>44.5</td>
<td>45.0</td>
<td>45.2</td>
<td>45.7</td>
</tr>
<tr>
<td>Average Service</td>
<td>12.0</td>
<td>11.1</td>
<td>10.9</td>
<td>11.8</td>
<td>11.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Average Plan Compensation</td>
<td>$46,850</td>
<td>$49,078</td>
<td>$46,278</td>
<td>$46,991</td>
<td>$47,503</td>
<td>$50,028</td>
</tr>
<tr>
<td>Active Payroll ($000's)</td>
<td>$16,303</td>
<td>$15,165</td>
<td>$14,855</td>
<td>$13,956</td>
<td>$14,203</td>
<td>$15,208</td>
</tr>
</tbody>
</table>

Town of West Warwick - 2015 Val Results
Town of West Warwick - 2015 Val Results

### Participant Information – by Division

<table>
<thead>
<tr>
<th>Division</th>
<th>Library</th>
<th>Waste Water</th>
<th>School</th>
<th>Municipal</th>
<th>Fire</th>
<th>Police</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disableds</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td>Retirees/Beneficiaries</td>
<td>7</td>
<td>20</td>
<td>81</td>
<td>85</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Deferred Vesteds</td>
<td>2</td>
<td>3</td>
<td>21</td>
<td>4</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Actives</td>
<td>9</td>
<td>23</td>
<td>90</td>
<td>61</td>
<td>70</td>
<td>51</td>
</tr>
</tbody>
</table>
Annual Benefit Payments

Actuary’s Comment – Annual benefit payments have steadily been increasing up through the 2012-2013 plan year. Benefit payments decreased in the 2013-2014 plan year due to the reduction in monthly payments for disabled Fire members and a decrease in payouts of employee contributions. While benefit payments are still expected to increase, the rate of increase is expected to be lower than the increases shown over the last 6 years due to the suspension and reductions in COLA increases beginning 7/1/2014.
2014 - 2015 Asset Reconciliation

Actuary’s Comment – The 2014-2015 return was approximately 1.4%, resulting in a market value of assets which is approximately $1.7 million lower than projected under last year’s valuation. The plan’s funding requirements are based on the Plan Assets, not the Market Value of Assets. While this “smoothing” approach will not reduce long-term costs, it will change the timing at which costs are accounted for. The theoretical rationale for this approach is that gains and losses will offset one another before they must be paid for.

*Expenses shown include legal, administrative and investment expenses.
**Annual Investment Return Rates**

![Bar chart showing annual investment return rates from 2008-2009 to 2014-2015. The chart compares Market Value of Assets and Plan Assets with return rates ranging from -20% to 25%.

Actuary’s Comment – Over the past seven plan years, the plan’s average annual investment return was 4.6%.
Asset Class Allocation

<table>
<thead>
<tr>
<th></th>
<th>6/30/2012</th>
<th>6/30/2013</th>
<th>6/30/2014</th>
<th>6/30/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>9%</td>
<td>4%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Government Securities</td>
<td>12%</td>
<td>13%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>28%</td>
<td>27%</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Equities</td>
<td>51%</td>
<td>56%</td>
<td>55%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Actuary’s Comment – The plan asset mix should be considered when setting the expected investment return assumption.
The Accrued Liability is the present value of benefits to be paid in the future, based on pay and service earned to date. The future benefits are discounted at the valuation interest rate.
Accrued Liability - by Division

<table>
<thead>
<tr>
<th>Division</th>
<th>7/1/2011</th>
<th>7/1/2012</th>
<th>7/1/2013</th>
<th>7/1/2014</th>
<th>7/1/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>$39,149</td>
<td>$39,329</td>
<td>$42,821</td>
<td>$39,715</td>
<td>$41,803</td>
</tr>
<tr>
<td>Fire</td>
<td>$43,896</td>
<td>$41,803</td>
<td>$44,801</td>
<td>$41,142</td>
<td>$43,255</td>
</tr>
<tr>
<td>Municipal</td>
<td>$28,699</td>
<td>$28,662</td>
<td>$30,727</td>
<td>$29,185</td>
<td>$30,655</td>
</tr>
<tr>
<td>School</td>
<td>$22,768</td>
<td>$24,025</td>
<td>$25,613</td>
<td>$24,217</td>
<td>$25,578</td>
</tr>
<tr>
<td>Waste Water</td>
<td>$7,119</td>
<td>$7,311</td>
<td>$7,684</td>
<td>$7,219</td>
<td>$7,716</td>
</tr>
<tr>
<td>Library</td>
<td>$2,738</td>
<td>$2,630</td>
<td>$2,943</td>
<td>$2,873</td>
<td>$2,909</td>
</tr>
</tbody>
</table>

Town of West Warwick - 2015 Val Results
Actuary’s Comment – Over 70% of the plan’s liability is for participants who no longer work for the Town. This makes the plan very leveraged and highly volatile with regards to asset returns.
The Normal Cost Percentage is the ratio of present value of benefits earned during the current year to the active participant payroll.

Actuary’s Comment – The Normal Cost Percentage indicates the cost of benefits earned in the current year as a percentage of pay. The decrease in Total Normal Cost Percentage from 2013 to 2014 is largely due to the benefit changes implemented and made effective 7/1/2014.
The contribution recommendation consists of the annual normal cost and an amortization (over a closed 25-year period as a level % of pay) of past service liability. These components add up (along with interest to the middle of the plan year) to determine the contribution recommendation for the year. Beginning with the 2015-2016 plan year, contributions are based on the calculated contribution as a percentage of payroll from the prior valuation date. This percentage is applied to projected payroll for the following plan year.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>2.1%</td>
<td>2.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>ER Normal Cost</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Amortization</td>
<td>50.1%</td>
<td>50.1%</td>
<td>49.9%</td>
</tr>
<tr>
<td>Total</td>
<td>57.1%</td>
<td>57.1%</td>
<td>56.6%</td>
</tr>
<tr>
<td>Projected Payroll</td>
<td>$14,203,313</td>
<td>$14,552,901</td>
<td>$15,441,246</td>
</tr>
<tr>
<td>Recommended Contribution</td>
<td>$8,103,839</td>
<td>$8,309,706</td>
<td>$8,739,745</td>
</tr>
</tbody>
</table>
Contribution Recommendation - by Division

Town of West Warwick - 2015 Val Results
New Required Disclosures

New GASB Disclosures
- GASB 67 and 68 replace GASB 25 and GASB 27
- GASB 67 (plan reporting) was effective 6/30/2014
- GASB 68 (employer reporting) was effective 6/30/2015
- Key changes
  - Depending on funded status and contribution policy, blended discount rates may be required to determine the plan’s liability (requires 30+ year projection to demonstrate trust assets available to make all future payments)
  - Balance sheet recognition of the unfunded liability using market value of assets
  - Benefit changes for retirees recognized immediately
  - Benefit changes for active members recognized over future working lifetimes
  - Investment experience recognized over 5 years
  - Separation of funding from accounting
The Pension Expense consists of the service cost (the present value of the current year’s benefit accrual), the interest cost (interest on the total pension liability at the chosen discount rate), and administrative expenses, offset by the projected return on assets and employee contributions. Gains and losses arising from actual demographic experience, assumption changes, and actual investment performance may also be gradually recognized as expense.

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**TPL** Refers to “Total Pension Liability”

**The $305,000 charge is due to recognizing the difference between projected and actual 2014-2015 earnings on investments over five years. This charge will apply for the four following fiscal years.**
Under GASB 67 and 68, the Net Pension Liability is equal to the unfunded liability at the measurement date. In determining the unfunded liability, the market value of assets is used.
Important Comments About Cost Information Included in this Report

The cost projections contained in this report are based on data as of July 1, 2015. Assumptions used in measuring the liabilities are consistent with the July 1, 2015 actuarial report unless stated otherwise. Reasonable actuarial techniques and assumptions were used to produce the cost projections. Data was provided by the Town.

The following pages show cost projections under specific economic scenarios and are meant to be used for illustration purposes only. Actual results will vary from projections shown in this report due to actual participant data, actual asset returns, and any assumption changes that may be warranted. Depending on the use of this information, additional cost projections may be necessary to quantify the sensitivity of the results.

These projections reflect numerous assumptions and one should focus on the general trend of the results rather than the absolute dollar amounts.
### Projections – Various Asset Returns

**Plan Year Ending**

<table>
<thead>
<tr>
<th>Payroll (in $000's)</th>
<th>2017</th>
<th>2022</th>
<th>2027</th>
<th>2032</th>
<th>2037</th>
<th>2042</th>
<th>2046</th>
<th>2017-2046</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15,441</td>
<td>17,537</td>
<td>20,211</td>
<td>23,118</td>
<td>26,543</td>
<td>30,774</td>
<td>34,851</td>
<td></td>
</tr>
</tbody>
</table>

**Recommended Contribution as % of pay**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022</th>
<th>2027</th>
<th>2032</th>
<th>2037</th>
<th>2042</th>
<th>2046</th>
<th>2017-2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5% Asset Return</td>
<td>57%</td>
<td>61%</td>
<td>65%</td>
<td>69%</td>
<td>74%</td>
<td>12%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>7.5% Asset Return</td>
<td>57%</td>
<td>61%</td>
<td>63%</td>
<td>66%</td>
<td>68%</td>
<td>4%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>8.5% Asset Return</td>
<td>57%</td>
<td>60%</td>
<td>61%</td>
<td>62%</td>
<td>62%</td>
<td>4%</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

**Annual Town Contribution ($000's)**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022</th>
<th>2027</th>
<th>2032</th>
<th>2037</th>
<th>2042</th>
<th>2046</th>
<th>2017-2046</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,740</td>
<td>10,768</td>
<td>13,097</td>
<td>15,951</td>
<td>19,536</td>
<td>3,631</td>
<td>4,078</td>
<td>370,414</td>
</tr>
</tbody>
</table>

**These numbers are estimates only and are not guarantees of future plan costs.**

Town of West Warwick - 2015 Val Results
Appendix
Summary of Plan Provisions

- **Effective Date**
  - Police and Fire – April 1, 1957
  - School – March 1, 1970
  - Others – July 1, 1969

- **Participation**
  Employees are eligible to participate in the Plan upon date of hire.

- **Normal Retirement**
  
  - **Eligibility** –
    - Fire hired before 7/1/2014 – age 62 or age 50 with 25 years of credited service. Four members named in CBA may retire at age 62.5 or upon completion of 20 years of credited service regardless of age
    - Fire hired on or after 7/1/2014 – age 62 or age 55 with 25 years of credited service
    - Civilian Fire – age 60 with 10 years of credited service
    - Police hired before 7/1/2014 – age 62 or 20 years of credited service regardless of age
    - Police hired on or after 7/1/2014 – age 62 or age 50 with 20 years of credited service
    - Library – age 60 with 10 years of credited service or 25 years of credited service regardless of age
    - Municipal Non-Union – age 55 with 10 years of credited service

  - **Benefit** –
    - Fire – 2.2% of Average Annual Compensation x credited service up to 25 years, plus 3.0% x Average Annual Compensation x up to 5 additional years
    - Police with 20 years of service by 6/30/2014 – 2.5% of Average Annual Compensation x credited service up to 28 years
    - Other Police – 2.5% of Average Annual Compensation x credited service up to 20 years, plus 1.0% of Average Annual Compensation x up to 5 additional years of credited service, plus 2.5% of Average Annual Compensation for next 6 years of service
    - Library – 2.5% of Average Annual Compensation x credited service
    - Municipal Union, Waste Water, School (Council 94), Municipal Non-Union – 2.5% of Average Annual Compensation x credited service prior to 7/1/2014, plus 2.4% of Average Annual Compensation for each year of credited service after 7/1/2014

- **Vesting**
  
  - Eligibility – 100% vested at 10 years of service
  - Benefit – Normal Retirement Benefit commencing at normal retirement age.
### Summary of Plan Provisions – (Continued)

- **Annual Compensation**
  - **Police** – Basic earnings, longevity pay (excluding overtime and other extra payments), wellness stipend, and 105 hours of holiday pay
  
  - **Fire** – Basic earnings, longevity pay (excluding overtime and other extra payments), all holiday pay, and EMT pay
  
  - **Others** – Basic earnings and longevity pay (excluding overtime and other extra payments)

- **Average Annual Compensation**
  - **Police, Library** – average of Annual Compensation over the last 12 months of employment
  
  - **Fire** – average of highest three consecutive Annual Compensation amounts
  
  - **Municipal Non-Union** – average of final three Annual Compensation amounts
  
  - **Municipal Union, Waste Water, School (Council 94)** – average of final ten Annual Compensation amounts

- **Credited Service**
  Contributing employees receive credit for all service from date of membership

- **Participant Contributions**
  - **Police** – 11% of Annual Compensation, increasing to 12% at 7/1/2015
  
  - **Fire** – 12% of Annual Compensation, increasing to 13% at 7/1/2015
  
  - **Library** – 9% of Annual Compensation
  
  - **Others** – 11% of Annual Compensation

- **Payment Form Options**
  For married participants, the unreduced payment form is a 67.5% joint and survivor annuity. For single participants, the unreduced payment form is a life annuity.

- **Cost of Living Adjustment***
  - **Police** – 2.25% for 15 years effective 7/1/2000. For active members as of 7/1/14, the COLA is suspended 7 years from retirement
  
  - **Fire** – 2.25% for 15 years effective 7/1/2002. For active members as of 7/1/14, the COLA is suspended until the earlier of 7 years from retirement or age 62.5 (age 67 for civilian members), followed by a 2.25% simple COLA for 15 years.
  
  - **Library** – 2.25% for 15 years effective 7/1/2002
  
  - **Others** – 2.25% for 15 years effective 7/1/2002. For active members as of 7/1/14, the COLA is suspended 5 years from retirement, followed by 2% compounded for 15 years.

  *For inactive members as of 7/1/14, the COLA has been suspended until 6/30/2019
Summary of Actuarial Assumptions and Methods – Funding Valuation

- **Interest Rate**
  7.50%

- **Annual Pay Increases**

<table>
<thead>
<tr>
<th>Years</th>
<th>Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2013-June 2018</td>
<td>2% per year</td>
</tr>
<tr>
<td>July 2018+</td>
<td>3.5% per year</td>
</tr>
</tbody>
</table>

- **Mortality Rates for Plan Year Ending 6/30/16**

  **Police and Fire (Healthy)** – RP-2000 Combined Blue-Collar Mortality Table with generational projection per Scale AA

  **Others (Healthy) and Beneficiaries of All Participants** – RP-2000 Combined Healthy Mortality Table with generational projection per Scale AA

  **Disabled** – RP-2000 Disabled Mortality Table with generational projection per Scale AA

- **Mortality Rates for Plan Year Ending 6/30/17**

  **Police and Fire (Healthy)** – RP-2014 Blue Collar Mortality Table with Social Security Generational Improvements from 2006

  **Others (Healthy) and Beneficiaries of All Participants** – RP-2014 Mortality Table with Social Security Generational Improvements from 2006

  **Disabled** – RP-2014 Disabled Mortality Table with Social Security Generational Improvements from 2006

- **Retirement Rates**

  **Police hired before 7/1/14**
  - 25% at 20 years of service; 50% at 25 years of service; 100% at age 62; 5% at all other age/service combinations

  **Police hired on/after 7/1/14**
  - 25% at first eligibility for unreduced retirement if less than 25 years of service; 50% at first eligibility for unreduced retirement at 25 or more years of service; 100% at age 62; 5% at all other age/service combinations

  **4 Grandfathered Fire Members**
  - 25% at 20 years of service; 50% at 25 years of service; 100% at age 62; 5% at all other age/service combinations

  **Other Fire Members**
  - 50% at first eligibility for unreduced retirement; 5% at ages 50-54; 30% at ages 55 and 60 if ineligible for unreduced retirement; 50% at ages 55 and 60 if eligible for unreduced retirement; 100% at age 62; 10% at all other age/service combinations

  **Civilian Fire Members**
  - 5% at all ages <60; 50% at ages 60 and 62; 10% at ages 61, 63, 64; 100% at age 65

  **Others**

<table>
<thead>
<tr>
<th>Age</th>
<th>&lt; 56</th>
<th>56-59</th>
<th>60</th>
<th>61</th>
<th>62-64</th>
<th>65-66</th>
<th>67-69</th>
<th>70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>2%</td>
<td>4%</td>
<td>25%</td>
<td>10%</td>
<td>30%</td>
<td>25%</td>
<td>50%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Town of West Warwick - 2015 Val Results
Summary of Actuarial Assumptions and Methods – Funding Valuation – (Continued)

- **Actuarial Cost Method**
  - Entry Age Normal

- **Asset Valuation Method**
  - Smoothed Value – investment gains/losses recognized over five years, subject to a 15% corridor

- **Eligible Spouse**
  - 80% of participants are assumed to be married with female spouse 3 years younger

- **Withdrawal Rates**
  - **Police and Fire** – None
  - **Others** –

<table>
<thead>
<tr>
<th>Age</th>
<th>Police/Fire</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>0.28%</td>
<td>0.09%</td>
</tr>
<tr>
<td>30</td>
<td>0.44%</td>
<td>0.15%</td>
</tr>
<tr>
<td>35</td>
<td>0.66%</td>
<td>0.22%</td>
</tr>
<tr>
<td>40</td>
<td>0.99%</td>
<td>0.33%</td>
</tr>
<tr>
<td>45</td>
<td>1.53%</td>
<td>0.51%</td>
</tr>
<tr>
<td>50</td>
<td>2.51%</td>
<td>0.84%</td>
</tr>
<tr>
<td>55</td>
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<td>0.00%</td>
</tr>
<tr>
<td>60</td>
<td>6.32%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

- **Cost of Living Adjustment for Future Police and Fire Disability**
  - 90% of assumed active salary increase rate

<table>
<thead>
<tr>
<th>Years</th>
<th>Increases</th>
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</thead>
<tbody>
<tr>
<td>July 2013-June 2018</td>
<td>0.0% per year</td>
</tr>
<tr>
<td>July 2018+</td>
<td>3.15% per year</td>
</tr>
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</table>