

# Belmont Contributory Retirement System

**Actuarial Valuation and Review as of  
January 1, 2020**



This report has been prepared at the request of the Retirement Board to assist in administering the Belmont Contributory Retirement System. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Retirement Board and may only be provided to other parties in its entirety, unless expressly authorized by Segal. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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**Segal**



116 Huntington Ave., 8th Floor  
Boston, MA 02116-5744  
segalco.com  
T 617.424.7300

October 26, 2020

Retirement Board  
Belmont Contributory Retirement System  
455 Concord Avenue  
Belmont, MA 02478-0900

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2020. It summarizes the actuarial data used in the valuation, analyzes the preceding two years' experience, and establishes the funding requirements for fiscal 2021 and later years.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System. The census information and financial information on which our calculations were based was prepared by the staff of the Belmont Contributory Retirement System. That assistance is gratefully acknowledged.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Belmont Contributory Retirement System.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,  
Segal

A handwritten signature in blue ink, appearing to read "Kathleen A. Riley", is written over a horizontal line.

Kathleen A. Riley, FSA, MAAA, EA  
Senior Vice President and Actuary

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# Section 1: Actuarial Valuation Summary

## Purpose and basis

This report was prepared by Segal to present a valuation of the Belmont Contributory Retirement System as of January 1, 2020. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The measurements shown in this actuarial valuation may not be applicable for other purposes. In particular, the measures herein are not necessarily appropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations. 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; and changes in plan provisions or applicable law.

The contribution requirements presented in this report are based on:

- The benefit provisions of Massachusetts General Law Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of December 31, 2019, provided by the Retirement System;
- The assets of the Plan as of December 31, 2019, provided by the staff of the Retirement System;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.

Certain disclosure information required by GASB Statements No 67 and 68 as of December 31, 2019 for the Retirement System is provided in a separate report.

## Section 1: Actuarial Valuation Summary

### Valuation highlights

1. It is important to note that this actuarial valuation is based on plan assets as of December 31, 2019. Due to the COVID-19 pandemic, market conditions have changed significantly since the valuation date. The System's actuarial status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. While it is impossible to determine how the market will perform over the next several months, and how that will affect the results of next year's valuation, Segal is available to prepare projections of potential outcomes upon request.
2. Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the unfunded actuarial accrued liability and the principal balance. The funding policy adopted by the Belmont Contributory Retirement System meets this standard and funds the unfunded actuarial accrued liability by June 30, 2031.
3. The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 60.42%, compared to the prior year funded ratio of 58.15%. This ratio is one measure of funding status, and its history is a measure of funding progress. Using the market value of assets, the funded ratio is 61.79%, compared to 59.53% as of the prior valuation date. These measurements are not necessarily appropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligation or the need for or the amount of future contributions.
4. During the plan years ending December 31, 2018 and December 31, 2019, the market value rate of return was -3.04% and 15.72%, respectively. The rate of return on the actuarial value of assets (which gradually recognizes market value fluctuations over a five-year period) for the plan years ended 2018 and 2019 was 5.37% and 6.62%, respectively. The actuarial value of assets as of December 31, 2019 was \$121.3 million, or 97.79% of the market value of assets of \$124.1 million (as reported in the Annual Statement). As of December 31, 2017, the actuarial value of assets was 97.69% of the market value.
5. As indicated in *Section 2* of this report, the total unrecognized investment gain as of December 31, 2019 was \$2.7 million. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment losses derived from future experience. This implies that earning the assumed rate of investment return (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years. The unrecognized investment gains are not reflected in the funding schedule shown in *Section 2*.

## Section 1: Actuarial Valuation Summary

6. The following actuarial assumptions were changed with this valuation:

- The investment return assumption was lowered from 7.40% to 7.15%.
- The allowance for net 3(8)(c) reimbursements was increased from \$200,000 to \$240,000.
- The administrative expense assumption was increased from \$290,000 to \$330,000.

Changing these assumptions increased the unfunded accrued liability by approximately \$5.0 million and increased the employer normal cost by approximately \$0.3 million.

7. The unfunded liability was expected to decrease by \$5.5 million from \$76.6 million as of January 1, 2018 to \$71.1 million as of January 1, 2020. The actual unfunded liability of \$79.5 million as of January 1, 2020 is \$8.4 million higher than expected due to the assumption changes noted above and the net experience loss that is detailed in *Section 2*.
8. In the funding schedule included in this report, the fiscal 2021 appropriation has been set equal to the previously budgeted amount of \$10,784,043. The funding schedule is projected to fully fund the System by June 30, 2031, if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions, with appropriations that increase 4.45% per year. The funding schedule included in the prior report fully funded the System by June 30, 2029 with appropriations that increased 5.75% per year.
9. Since the actuarial valuation results are dependent on a given set of assumptions, there is a risk that emerging results may differ significantly as actual experience proves to be different from the assumptions. We have not been engaged to perform a detailed analysis of the potential range of the impact of risk relative to the System's future financial condition, but have included a brief discussion of some risks that may affect the System in *Section 2*. A more detailed assessment would provide the Board with a better understanding of the inherent risks.

## Section 1: Actuarial Valuation Summary

### Summary of key valuation results

|                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2020                                                                              | 2018                                                                            |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Contributions for plan year beginning January 1:</b>               | <ul style="list-style-type: none"> <li>Actuarially Determined Contribution for fiscal year 2021 and 2019</li> <li>Actuarially Determined Contribution for fiscal year 2022 and 2020</li> <li>Actuarially Determined Contribution for fiscal year 2023 and 2021</li> </ul>                                                                                                                                                        | \$10,784,043<br>11,263,933<br>11,765,178                                          | \$9,643,193<br>10,197,676<br>10,784,043                                         |
| <b>Actuarial accrued liability for plan year beginning January 1:</b> | <ul style="list-style-type: none"> <li>Retired participants and beneficiaries</li> <li>Inactive participants with a vested right to a deferred or immediate benefit</li> <li>Inactive participants due a refund of employee contributions</li> <li>Active participants</li> <li>Total</li> <li>Normal cost including administrative expense assumption and net 3(8)c reimbursements for plan year beginning January 1</li> </ul> | \$111,678,293<br>3,666,875<br>1,144,890<br>84,339,488<br>200,829,546<br>5,245,533 | \$104,967,590<br>1,169,403<br>980,531<br>75,926,223<br>183,043,747<br>4,507,303 |
| <b>Assets for plan year beginning January 1:</b>                      | <ul style="list-style-type: none"> <li>Market value of assets (MVA)</li> <li>Actuarial value of assets (AVA)</li> <li>Actuarial value of assets as a percentage of market value of assets</li> </ul>                                                                                                                                                                                                                             | \$124,083,281<br>121,340,803<br>97.79%                                            | \$108,963,549<br>106,445,674<br>97.69%                                          |
| <b>Funded status for plan year beginning January 1:</b>               | <ul style="list-style-type: none"> <li>Unfunded actuarial accrued liability on market value of assets</li> <li>Funded percentage on MVA basis</li> <li>Unfunded actuarial accrued liability on actuarial value of assets</li> <li>Funded percentage on AVA basis</li> </ul>                                                                                                                                                      | \$76,746,265<br>61.79%<br>\$79,488,743<br>60.42%                                  | \$74,080,198<br>59.53%<br>\$76,598,073<br>58.15%                                |
| <b>Key assumptions:</b>                                               | <ul style="list-style-type: none"> <li>Net investment return</li> <li>Long-term wage inflation</li> </ul>                                                                                                                                                                                                                                                                                                                        | 7.15%<br>3.00%                                                                    | 7.40%<br>3.00%                                                                  |
| <b>Demographic data for plan year beginning January 1:</b>            | <ul style="list-style-type: none"> <li>Number of retired participants and beneficiaries</li> <li>Number of inactive participants with a vested right to a deferred or immediate benefit</li> <li>Number of inactive participants due a refund of employee contributions</li> <li>Number of active participants</li> <li>Total payroll</li> <li>Average payroll</li> </ul>                                                        | 351<br>18<br>252<br>498<br>\$29,659,289<br>59,557                                 | 354<br>12<br>242<br>467<br>\$26,395,332<br>56,521                               |

#### Notes:

Payroll figures are for the prior calendar year and reflect annualized salaries for participants hired during the year. Calendar year 2017 payroll figures for Patrolmen, Firefighters, and SEIU participants were increased by 0.875%, 0.625% and 1.00%, respectively, to reflect bargaining agreements settled in 2018.

## Section 1: Actuarial Valuation Summary

### Important information about actuarial valuations

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a pension plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare a valuation, Segal relies on a number of input items. These include:

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Plan of benefits</b>      | Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Participant data</b>      | An actuarial valuation for a plan is based on data provided to the actuary by the Retirement System. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Assets</b>                | The valuation is based on the market value of assets as of the valuation date, as provided by the Retirement System. The Retirement System uses an “actuarial value of assets” that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Actuarial assumptions</b> | In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results that does not mean that the previous assumptions were unreasonable. |

## Section 1: Actuarial Valuation Summary

The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

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The actuarial valuation is prepared at the request of the Retirement Board. Segal is not responsible for the use or misuse of its report, particularly by any other party.

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An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

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Actuarial results in this report are not rounded, but that does not imply precision.

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If the Retirement Board is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.

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Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Retirement Board should look to their other advisors for expertise in these areas.

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As Segal has no discretionary authority with respect to the management or assets of the System, it is not a fiduciary in its capacity as actuaries and consultants with respect to the System.

# Section 2: Actuarial Valuation Results

## Participant data

The Actuarial Valuation and Review considers the number and demographic characteristics of covered participants, including active participants, inactive participants, retired participants and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

More detailed information for this valuation year and the preceding valuation can be found in *Section 3, Exhibits A and B*.

### Participant Population: 2009 – 2019

| Year Ended<br>December 31 | Active<br>Participants | Inactive<br>Participants | Retired<br>Participants<br>and<br>Beneficiaries | Total Non-<br>Actives | Ratio of<br>Non-Actives<br>to Actives |
|---------------------------|------------------------|--------------------------|-------------------------------------------------|-----------------------|---------------------------------------|
| 2009                      | 425                    | 142                      | 343                                             | 485                   | 1.14                                  |
| 2011                      | 432                    | 141                      | 341                                             | 482                   | 1.12                                  |
| 2013                      | 458                    | 164                      | 346                                             | 510                   | 1.11                                  |
| 2015                      | 460                    | 230                      | 348                                             | 578                   | 1.26                                  |
| 2017                      | 467                    | 254                      | 354                                             | 608                   | 1.30                                  |
| 2019                      | 498                    | 270                      | 351                                             | 621                   | 1.25                                  |

## Section 2: Actuarial Valuation Results

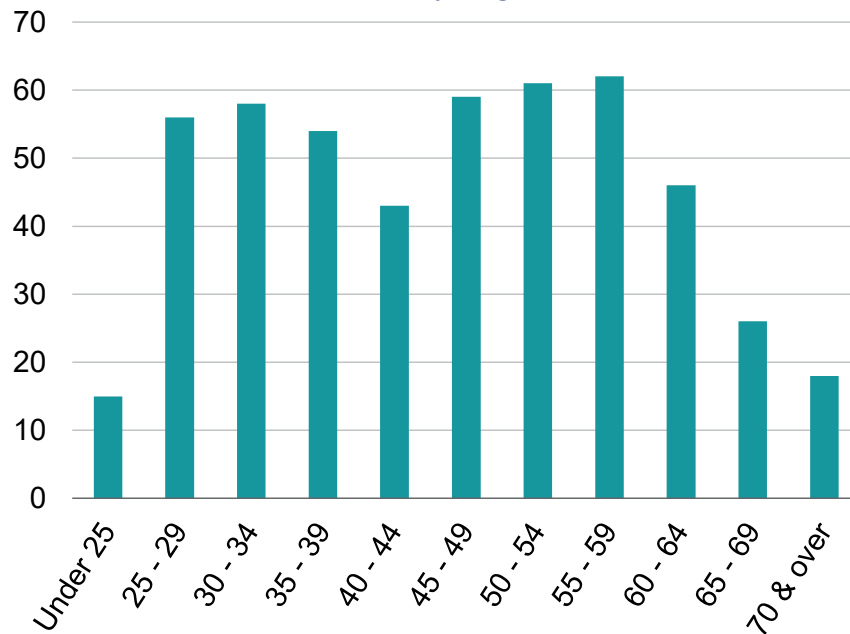
### Active participants

Plan costs are affected by the age, years of service and payroll of active participants. In this year's valuation, there were 498 active participants with an average age of 46.5, average years of service of 10.7 years and average payroll of \$59,557. The 467 active participants in the prior valuation had an average age of 47.2, average service of 11.4 years and average payroll of \$56,521.

Among the active participants, there were none with unknown age and/or service information.

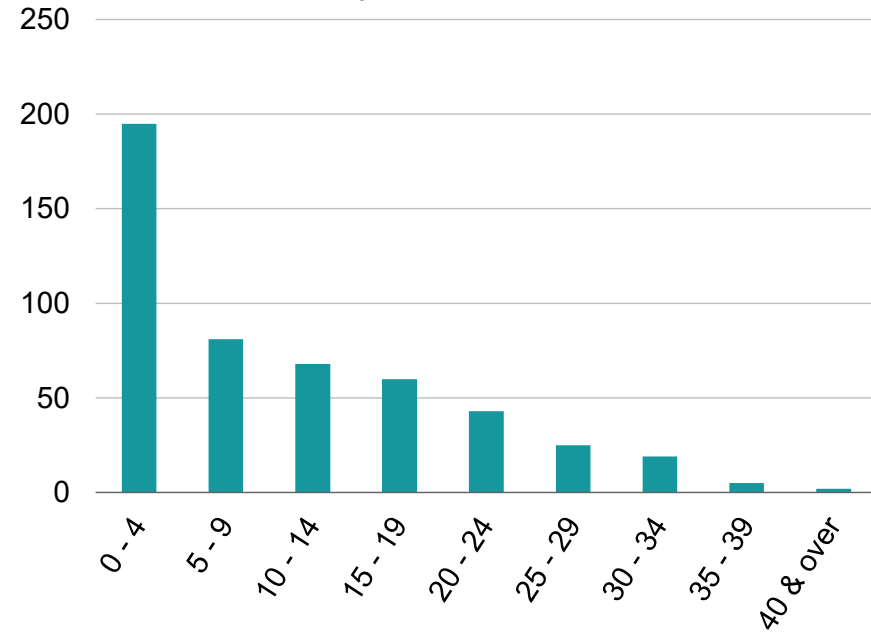
#### Distribution of Active Participants as of December 31, 2019

##### by Age



|                        |      |
|------------------------|------|
| Average age            | 46.5 |
| Prior year average age | 47.2 |
| Difference             | -0.7 |

##### by Years of Service



|                                     |      |
|-------------------------------------|------|
| Average years of service            | 10.7 |
| Prior year average years of service | 11.4 |
| Difference                          | -0.7 |

### Inactive participants

In this year's valuation, there were 18 participants with a vested right to a deferred or immediate benefit and 252 participants entitled to a return of their employee contributions.

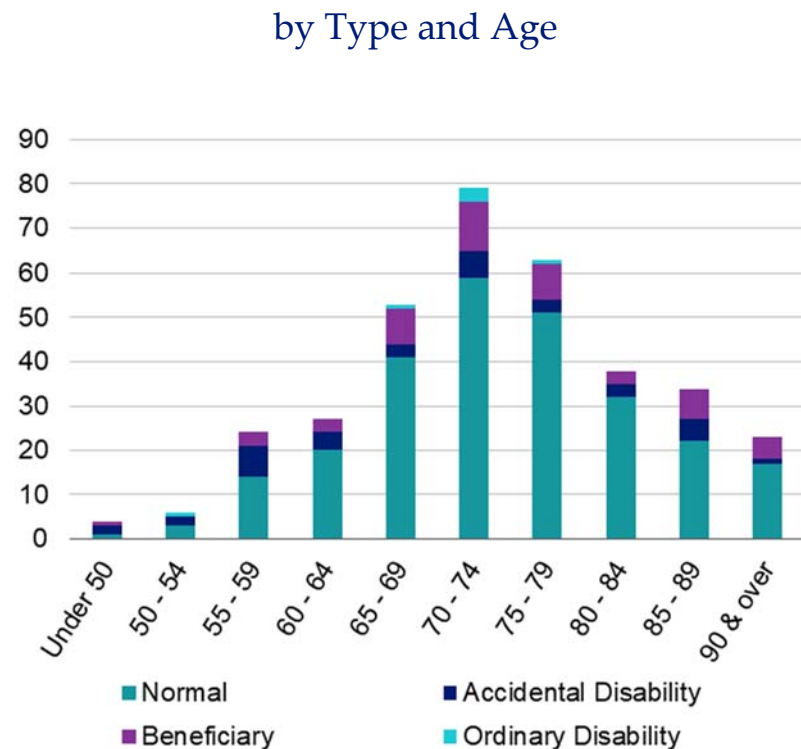
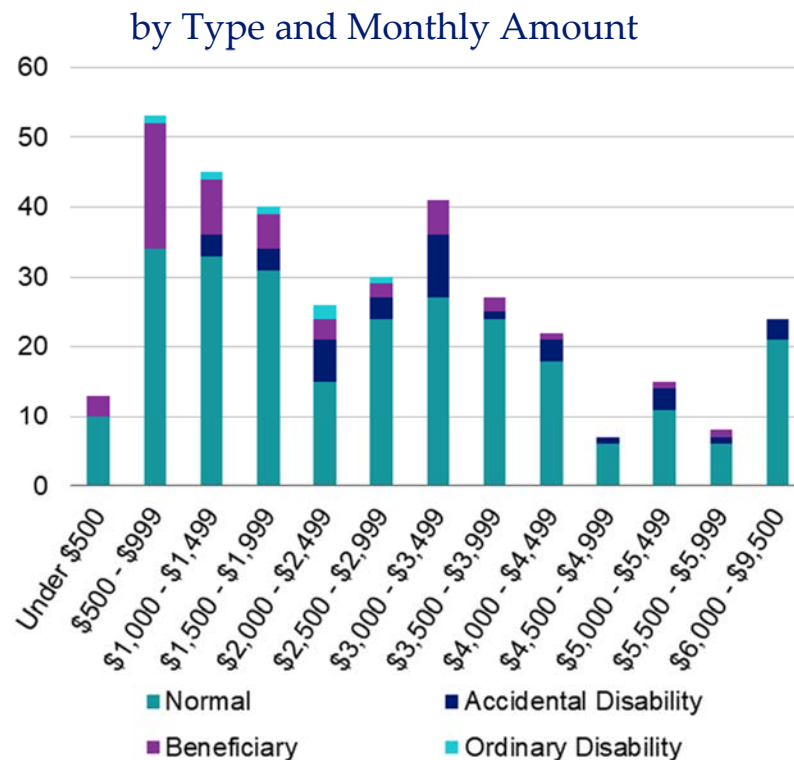
## Section 2: Actuarial Valuation Results

### Retired participants and beneficiaries

As of December 31, 2019, 302 retired participants and 49 beneficiaries were receiving total monthly benefits of \$962,892, excluding COLAs reimbursed by the Commonwealth. For comparison, in the previous valuation, there were 310 retired participants and 44 beneficiaries receiving monthly benefits of \$921,400, excluding COLAs reimbursed by the Commonwealth.

As of December 31, 2019, the average monthly benefit for retired participants and beneficiaries is \$2,743, compared to \$2,603 in the previous valuation. The average age for retired participants and beneficiaries is 73.4 in the current valuation, compared with 73.7 in the prior valuation.

#### Distribution of Pensioners and Beneficiaries as of December 31, 2019



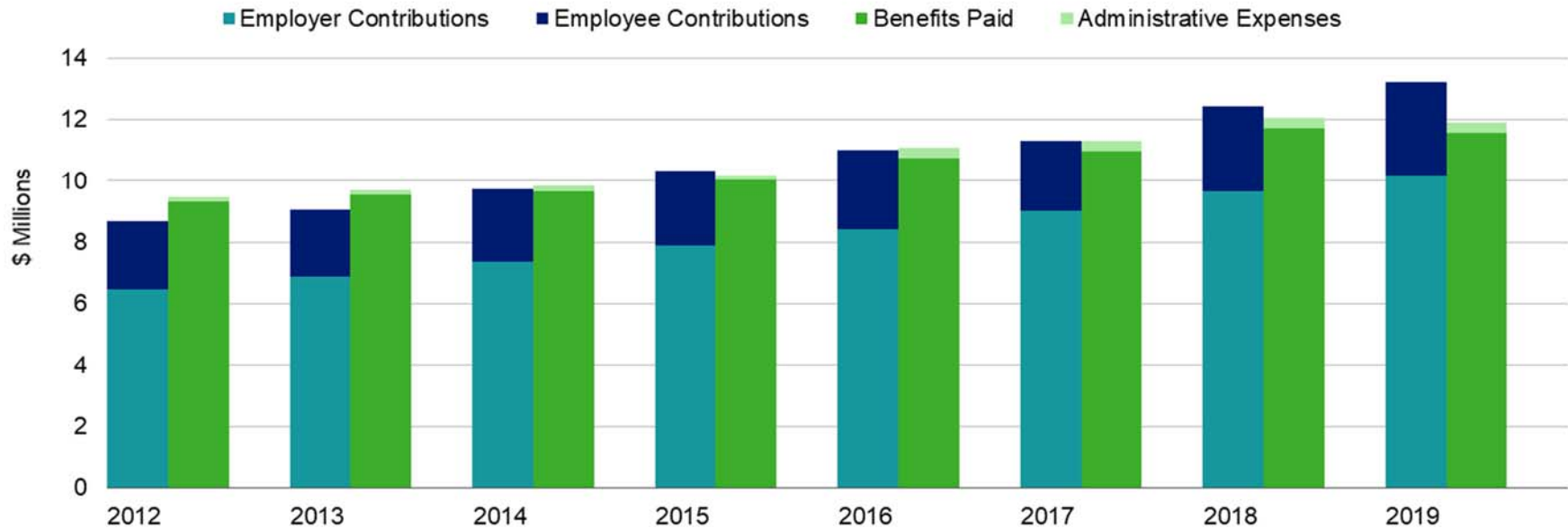
## Section 2: Actuarial Valuation Results

### Financial information

Retirement plan funding anticipates that, over the long term, both contributions (less administrative expenses) and investment earnings (less investment fees) will be needed to cover benefit payments. Retirement plan assets change as a result of the net impact of these income and expense components.

Additional financial information, including a summary of transactions for the valuation year, is presented in *Section 3, Exhibit C*.

Comparison of Contributions with Benefits and Expenses  
for Years Ended December 31, 2011 – 2019



## Section 2: Actuarial Valuation Results

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable. The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

### Determination of Actuarial Value of Assets

|                                                                            | Year Ended                         |                                        |                            |
|----------------------------------------------------------------------------|------------------------------------|----------------------------------------|----------------------------|
|                                                                            |                                    | December 31, 2019                      | December 31, 2018          |
| <b>1</b> Market value of assets at the end of the year                     |                                    | \$124,083,281                          | \$106,008,143              |
| <b>2</b> Calculation of unrecognized return                                | <b>Original Amount<sup>1</sup></b> | <b>Unrecognized Amount<sup>2</sup></b> | <b>Unrecognized Amount</b> |
| (a) Year ended December 31, 2019                                           | \$8,875,176                        | \$7,100,141                            | \$0                        |
| (b) Year ended December 31, 2018                                           | -11,399,211                        | -6,839,526                             | -9,119,369                 |
| (c) Year ended December 31, 2017                                           | 6,022,837                          | 2,409,134                              | 3,613,701                  |
| (d) Year ended December 31, 2016                                           | 363,643                            | 72,729                                 | 145,458                    |
| (e) Year ended December 31, 2015                                           | -5,870,027                         | 0                                      | -1,174,005                 |
| (f) Total unrecognized return                                              |                                    | \$2,742,478                            | -\$6,534,215               |
| <b>3</b> Preliminary actuarial value: <b>(1) - (2f)</b>                    |                                    | 121,340,803                            | 112,542,358                |
| <b>4</b> Adjustment to be within 20% corridor                              |                                    | 0                                      | 0                          |
| <b>5</b> Final actuarial value of assets: <b>(3) + (4)</b>                 |                                    | 121,340,803                            | 112,542,358                |
| <b>6</b> Actuarial value as a percentage of market value: <b>(5) ÷ (1)</b> |                                    | 97.79%                                 | 106.16%                    |
| <b>7</b> Amount deferred for future recognition: <b>(1) - (5)</b>          |                                    | \$2,742,478                            | -\$6,534,215               |

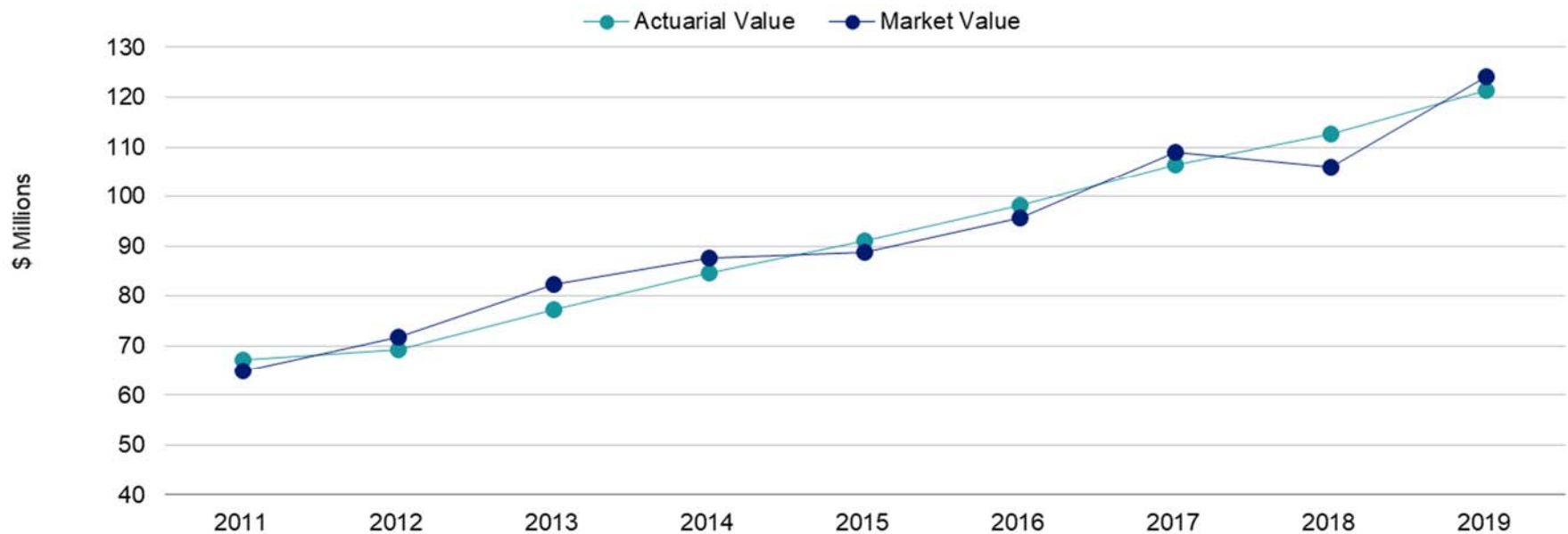
<sup>1</sup> Total return minus expected return on a market value basis.

<sup>2</sup> Recognition at 20% per year over five years.

## Section 2: Actuarial Valuation Results

Both the actuarial value and market value of assets are representations of the System's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the System's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

Actuarial Value of Assets vs. Market Value of Assets as of December 31, 2011 – 2019



## Section 2: Actuarial Valuation Results

### Actuarial experience

To calculate any actuarially determined contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), any contribution requirement will decrease from the previous year. On the other hand, any contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The net experience loss over the two-year period is \$3,457,419, which includes \$3,045,847 from investment losses and \$411,572 in losses from all other sources. The net experience variation from individual sources other than investments was 0.2% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

#### Actuarial Experience for Two-Year Period Ended December 31, 2019

|          |                                                                      |                        |
|----------|----------------------------------------------------------------------|------------------------|
| <b>1</b> | Net loss from investments <sup>1</sup>                               | <b>-\$3,045,847</b>    |
| <b>2</b> | Net loss from administrative expenses and net 3(8)(c) reimbursements | <b>-118,368</b>        |
| <b>3</b> | Net loss from other experience                                       | <b><u>-293,204</u></b> |
| <b>4</b> | Net experience loss: <b>1 + 2 + 3</b>                                | <b>-\$3,457,419</b>    |

<sup>1</sup> Details on next page

## Section 2: Actuarial Valuation Results

### Investment experience

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Belmont Contributory Retirement System's investment policy. The rate of return on the market value of assets for the 2019 and 2018 plan years was 15.72% and -3.04%, respectively.

For valuation purposes, the assumed rate of return on the actuarial value of assets was 7.40% for the 2019 and 2018 plan years. The actual rate of return on an actuarial basis for the 2019 and 2018 plan years was 6.62% and 5.37%, respectively. Since the actual return for the two-year period was less than the assumed return, the Plan experienced an actuarial loss during the two-year period ending December 31, 2019 with regard to its investments.

#### Investment Experience

|                                                   | Year Ended<br>December 31, 2019 |                 | Year Ended<br>December 31, 2018 |                 |
|---------------------------------------------------|---------------------------------|-----------------|---------------------------------|-----------------|
|                                                   | Market Value                    | Actuarial Value | Market Value                    | Actuarial Value |
| <b>1</b> Net investment income                    | \$16,768,139                    | \$7,491,445     | -\$3,322,332                    | \$5,729,758     |
| <b>2</b> Average value of assets                  | 106,661,643                     | 113,195,858     | 109,147,012                     | 106,629,137     |
| <b>3</b> Rate of return: <b>1 ÷ 2</b>             | 15.72%                          | 6.62%           | -3.04%                          | 5.37%           |
| <b>4</b> Assumed rate of return                   | 7.40%                           | 7.40%           | 7.40%                           | 7.40%           |
| <b>5</b> Expected investment income: <b>2 x 4</b> | \$7,892,962                     | \$8,376,494     | \$8,076,879                     | \$7,890,556     |
| <b>6</b> Actuarial gain/(loss): <b>1 - 5</b>      | \$8,875,177                     | -\$885,049      | -\$11,399,211                   | -\$2,160,798    |

## Section 2: Actuarial Valuation Results

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the actual market value investment return for the last eight years, including the five-year average.

Based on this experience and future expectations, we have lowered the assumed rate of return from 7.40% to 7.15%.

### Investment Return – Actuarial Value vs. Market Value: 2012 - 2019

| Year Ended<br>December 31            | Actuarial Value Investment Return |         | Market Value Investment Return |         |
|--------------------------------------|-----------------------------------|---------|--------------------------------|---------|
|                                      | Amount                            | Percent | Amount                         | Percent |
| 2012                                 | \$2,995,512                       | 4.49%   | \$7,670,611                    | 11.91%  |
| 2013                                 | 8,522,632                         | 12.35   | 11,280,295                     | 15.81   |
| 2014                                 | 7,598,751                         | 9.85    | 5,521,768                      | 6.71    |
| 2015                                 | 6,321,198                         | 7.46    | 934,243                        | 1.06    |
| 2016                                 | 7,072,227                         | 7.76    | 7,021,503                      | 7.91    |
| 2017                                 | 8,264,860                         | 8.42    | 13,204,734                     | 13.79   |
| 2018                                 | 5,729,758                         | 5.37    | -3,322,332                     | -3.04   |
| 2019                                 | 7,491,445                         | 6.62    | 16,768,139                     | 15.72   |
| Most recent five-year average return |                                   | 7.06%   |                                | 7.09%   |

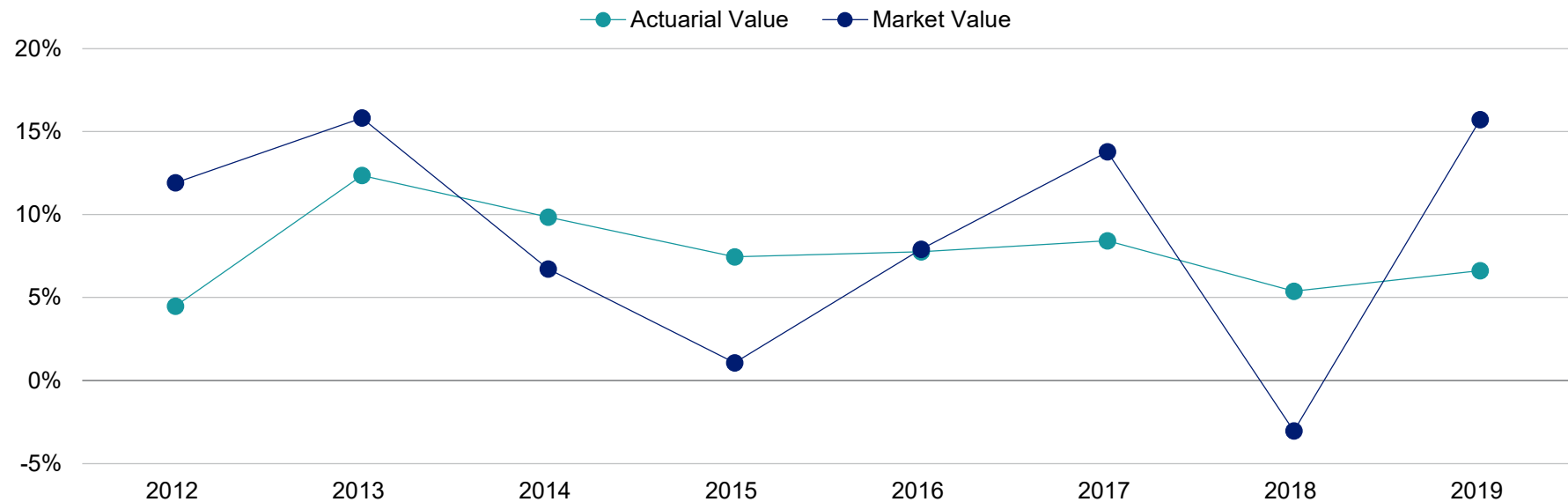
Note:

Each year's yield is weighted by the average asset value in that year.

## Section 2: Actuarial Valuation Results

As described earlier in this section, the actuarial asset valuation method gradually recognizes fluctuations in the market value rate of return. The goal of this is to stabilize the actuarial rate of return and to produce more level pension plan costs.

Market and Actuarial Rates of Return for Years Ended December 31, 2012 - 2019



## Section 2: Actuarial Valuation Results

### Non-investment experience

#### Administrative expenses

Administrative expenses for the years ended December 31, 2018 and 2019 were \$314,673 and \$315,261, respectively, compared to assumptions of \$290,000 for calendar year 2018 and \$298,700 for calendar year 2019. This resulted in a loss of \$44,285 for the two-year period, including an adjustment for interest. Based on information on expenses provided by the Retirement System, we have increased the assumption from \$290,000 for calendar year 2018 to \$330,000 for calendar year 2020, increasing 3.0% per year.

#### Net 3(8)(c) Reimbursements

Net 3(8)(c) reimbursements for the years ended December 31, 2018 and 2019 were \$232,851 and \$242,127, respectively, compared with the assumption of \$200,000 and \$206,000, respectively. This resulted in a loss of \$74,083 over the two-year period, including an adjustment for interest. We have increased the assumption from \$200,000 for calendar 2019 to \$240,000 for calendar 2020, increasing 3% per year.

#### Other experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among participants,
- retirement experience (earlier or later than projected),
- mortality (more or fewer deaths than projected),
- the number of disability retirements (more or fewer than projected), and
- salary increases (greater or smaller than projected).

The net loss from this other experience for the two-year period ending December 31, 2019 amounted to \$293,204, which is 0.1% of the actuarial accrued liability.

#### Liability Changes Due to Demographic Experience for Two-Year Period Ended December 31, 2019

|                                                                     |                     |
|---------------------------------------------------------------------|---------------------|
| Salary increases for continuing actives more than expected          | <b>-\$1,484,105</b> |
| More deaths than expected amongst retired members and beneficiaries | 290,860             |
| Miscellaneous experience gain                                       | <u>900,041</u>      |
| Total                                                               | <b>-\$293,204</b>   |

## Section 2: Actuarial Valuation Results

### Actuarial assumptions

The following assumption changes were changed with this valuation:

- The investment return assumption was lowered from 7.40% to 7.15%.
- The allowance for net 3(8)(c) reimbursements was increased from \$200,000 to \$240,000.
- The administrative expense assumption was increased from \$290,000 to \$330,000.

Changing these assumptions increased the unfunded accrued liability by approximately \$5.0 million and increased the employer normal cost by approximately \$0.3 million.

Details on actuarial assumptions and methods are in *Section 4, Exhibit I*.

### Plan provisions

There were no changes in plan provisions since the prior valuation.

A summary of plan provisions is in *Section 4, Exhibit II*.

## Section 2: Actuarial Valuation Results

### Development of Unfunded Actuarial Accrued Liability

|          |                                                           | Year Ended        |                   |
|----------|-----------------------------------------------------------|-------------------|-------------------|
|          |                                                           | December 31, 2019 | December 31, 2018 |
| <b>1</b> | Unfunded actuarial accrued liability at beginning of year | \$74,251,095      | \$76,598,073      |
| <b>2</b> | Normal cost at beginning of year                          | 4,642,522         | 4,507,303         |
| <b>3</b> | Total contributions                                       | -13,203,060       | -12,410,880       |
| <b>4</b> | Interest                                                  |                   |                   |
|          | • For whole year on <b>1 + 2</b>                          | \$5,838,127       | \$6,001,798       |
|          | • For half year on <b>3</b>                               | <u>-473,428</u>   | <u>-445,199</u>   |
|          | Total interest                                            | <u>5,364,699</u>  | <u>5,556,599</u>  |
| <b>5</b> | Expected unfunded actuarial accrued liability             | \$71,055,256      | \$74,251,095      |
| <b>6</b> | Changes due to:                                           |                   |                   |
|          | • Net loss from investments                               | \$3,045,847       | - -               |
|          | • Net loss from other experience                          | 411,572           | - -               |
|          | • Change in assumptions                                   | <u>4,976,068</u>  | - -               |
|          | Total changes                                             | <u>8,433,487</u>  | - -               |
| <b>7</b> | Unfunded actuarial accrued liability at end of year       | \$79,488,743      | - -               |

## Section 2: Actuarial Valuation Results

### Actuarially determined contribution

The Actuarially Determined Contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. For fiscal 2021, the Actuarially Determined Contribution has been set equal to the previously budgeted amount of \$10,784,043. The detail of the Actuarially Determined Contribution is shown below.

The funding schedule included in this report is projected to fully fund the System by June 30, 2031, if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions, with appropriations that increase 4.45% per year. The funding schedule included in the prior report fully funded the System by June 30, 2029 with appropriations that increased 5.75% per year.

#### Actuarially Determined Contribution for Year Beginning July 1

|           |                                                                                | 2020               |                        | 2018               |                        |
|-----------|--------------------------------------------------------------------------------|--------------------|------------------------|--------------------|------------------------|
|           |                                                                                | Amount             | % of Projected Payroll | Amount             | % of Projected Payroll |
| <b>1</b>  | Total normal cost                                                              | \$4,675,533        | 15.15%                 | \$4,017,303        | 14.63%                 |
| <b>2</b>  | Administrative expenses and allowances for net 3(8)(c) payments                | 570,000            | 1.85%                  | 490,000            | 1.78%                  |
| <b>3</b>  | Expected employee contributions                                                | <u>-3,060,458</u>  | <u>-9.92%</u>          | <u>-2,691,662</u>  | <u>-9.80%</u>          |
| <b>4</b>  | Employer normal cost: <b>(1) + (2) + (3)</b>                                   | \$2,185,075        | 7.08%                  | \$1,815,641        | 6.61%                  |
| <b>5</b>  | Actuarial accrued liability                                                    | 200,829,546        |                        | 183,043,747        |                        |
| <b>6</b>  | Actuarial value of assets                                                      | <u>121,340,803</u> |                        | <u>106,445,674</u> |                        |
| <b>7</b>  | Unfunded actuarial accrued liability: <b>(5) - (6)</b>                         | \$79,488,743       |                        | \$76,598,073       |                        |
| <b>8</b>  | Employer normal cost projected to July 1, 2020 and 2018, adjusted for timing   | 2,256,228          | 7.20%                  | 1,875,857          | 6.73%                  |
| <b>9</b>  | Projected unfunded actuarial accrued liability                                 | 82,281,408         |                        | 79,381,625         |                        |
| <b>10</b> | Payment on projected unfunded actuarial accrued liability, adjusted for timing | <u>8,527,815</u>   | 27.23%                 | <u>7,767,336</u>   | 27.88%                 |
| <b>11</b> | Actuarially Determined Contribution: <b>(8) + (10)</b>                         | \$10,784,043       | 34.43%                 | \$9,643,193        | 34.61%                 |
| <b>12</b> | Projected payroll                                                              | \$31,319,178       |                        | \$27,864,793       |                        |

#### Notes:

Actuarially Determined Contributions are assumed to be paid in equal installments on July 1 and December 31.  
Actuarially Determined Contributions are set equal to the budgeted amounts determined with the prior valuation.

## Section 2: Actuarial Valuation Results

### Funding schedule

| (1)<br>Fiscal Year<br>Ended June 30 | (2)<br>Employer<br>Normal Cost | (3)<br>Amortization of<br>2003 ERI Liability | (4)<br>Amortization of<br>Remaining<br>Unfunded<br>Liability | (5)<br>Actuarially<br>Determined<br>Contribution (ADC):<br>(2) + (3) + (4) | (6)<br>Total Unfunded<br>Accrued<br>Liability at<br>Beginning of<br>Fiscal Year | (7)<br>Percent increase<br>in ADC over prior<br>year |
|-------------------------------------|--------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------|
| 2021                                | \$2,256,228                    | \$90,551                                     | \$8,437,264                                                  | \$10,784,043                                                               | \$82,281,408                                                                    | --                                                   |
| 2022                                | 2,331,374                      | 94,627                                       | 8,837,932                                                    | 11,263,933                                                                 | 79,183,381                                                                      | 4.45%                                                |
| 2023                                | 2,409,009                      | 98,885                                       | 9,257,284                                                    | 11,765,178                                                                 | 75,437,584                                                                      | 4.45%                                                |
| 2024                                | 2,489,217                      | 103,334                                      | 9,696,177                                                    | 12,288,728                                                                 | 70,977,834                                                                      | 4.45%                                                |
| 2025                                | 2,572,080                      | 107,983                                      | 10,155,513                                                   | 12,835,577                                                                 | 65,732,301                                                                      | 4.45%                                                |
| 2026                                | 2,657,688                      | -                                            | 10,749,072                                                   | 13,406,760                                                                 | 59,623,062                                                                      | 4.45%                                                |
| 2027                                | 2,746,131                      | -                                            | 11,257,229                                                   | 14,003,360                                                                 | 52,565,624                                                                      | 4.45%                                                |
| 2028                                | 2,837,502                      | -                                            | 11,789,008                                                   | 14,626,510                                                                 | 44,468,408                                                                      | 4.45%                                                |
| 2029                                | 2,931,897                      | -                                            | 12,345,493                                                   | 15,277,390                                                                 | 35,232,194                                                                      | 4.45%                                                |
| 2030                                | 3,029,417                      | -                                            | 12,927,817                                                   | 15,957,234                                                                 | 24,749,523                                                                      | 4.45%                                                |
| 2031                                | 3,130,164                      | -                                            | 13,128,783                                                   | 16,258,947                                                                 | 12,904,062                                                                      | 1.89%                                                |
| 2032                                | 3,234,244                      | -                                            | -                                                            | 3,234,244                                                                  | -                                                                               | -80.11%                                              |

**Notes:**

Actuarially Determined Contribution for fiscal year 2021 is set equal to the budgeted amount determined with the prior valuation.

Actuarially Determined Contributions are assumed to be paid in equal installments on July 1 and December 31.

Item (2) reflects 3.0% growth in payroll and a 0.15% adjustment to total normal cost to reflect the effect of mortality improvements due to the generational mortality assumption.

Item (3) increases at 4.50% per year.

Projected normal cost does not reflect the future impact of pension reform for new hires.

Projected unfunded actuarial accrued liability does not reflect the recognition of deferred investment gains.

As of July 1, 2020, the remaining liability attributable to the 2003 ERI is \$423,533.

## Section 2: Actuarial Valuation Results

### Risk

Since the actuarial valuation results are dependent on a given set of assumptions and data as of a specific date, there is a risk that emerging results may differ significantly as actual experience differs from the assumptions.

This report does not contain a detailed analysis of the potential range of future measurements, but does include a brief discussion of some risks that may affect the System. This discussion is focused on funding-related risks, but similar concerns may apply to risks regarding the level of expense and liabilities reported for the System accounting purposes as well.

- Investment Risk (the risk that returns will be different than expected)

The market value rate of return over the last 8 years has ranged from a low of -3.04% as of 2018 to a high of 15.81% in 2013.

- Longevity Risk (the risk that mortality experience will be different than expected)

The actuarial valuation includes an expectation of future improvement in life expectancy. Emerging plan experience that does not match these expectations will result in either an increase or decrease in the actuarially determined contribution.

- Contribution Risk (the risk that actual contributions will be different from actuarially determined contribution)

Massachusetts General Law Chapter 32 requires payment of the actuarially determined contribution. If future experience matches current assumptions, we project the unfunded actuarial accrued liability will be paid off in 11 years.

- Demographic Risk (the risk that participant experience will be different than assumed)

Examples of this risk include:

- Actual retirements occurring earlier or later than assumed.
- Disability retirement experience different than assumed
- More or less active participant turnover than assumed.
- Salary increases greater or less than projected.

- Actual Experience Over the Last 8 years and Implications for the Future

Past experience can help demonstrate the sensitivity of key results to the Plan's actual experience. Over the past eight years:

The investment gain(loss) has ranged from a loss of \$11.4 million to a gain of \$8.9 million.

The non-investment gain(loss) for a year has ranged from a loss of \$6.1 million to a gain of \$3.0 million.

The funded percentage on the actuarial value of assets has ranged from a low of 49.9% as of January 1, 2012 to a high of 60.4% as of January 1, 2020.

## Section 2: Actuarial Valuation Results

- Maturity Measures

As pension plans mature, the cash need to fulfill benefit obligations will increase over time. Therefore, cash flow projections and analysis should be performed to assure that the Plan's asset allocation is aligned to meet emerging pension liabilities.

In 2019, contributions received exceed benefits paid plus administrative expenses by \$1.3 million. As the System matures, cash may be needed from the investment portfolio to meet benefit payments.

# Section 3: Supplemental Information

## Exhibit A: Table of Plan Coverage

| Category                                                                       | Year Ended December 31 |              | Change From Prior Year |
|--------------------------------------------------------------------------------|------------------------|--------------|------------------------|
|                                                                                | 2019                   | 2017         |                        |
| Active participants in valuation:                                              |                        |              |                        |
| • Number                                                                       | 498                    | 467          | 6.6%                   |
| • Average age                                                                  | 46.5                   | 47.2         | -0.7                   |
| • Average years of service                                                     | 10.7                   | 11.4         | -0.7                   |
| • Total payroll                                                                | \$29,659,289           | \$26,395,332 | 12.4%                  |
| • Average payroll                                                              | 59,557                 | 56,521       | 5.4%                   |
| • Member contributions                                                         | 26,691,330             | 24,928,107   | 7.1%                   |
| Inactive participants in valuation:                                            |                        |              |                        |
| • Inactive participants with a vested right to a deferred or immediate benefit | 18                     | 12           | 50.0%                  |
| • Inactive participants due a refund of employee contributions                 | 252                    | 242          | 4.1%                   |
| Retired participants:                                                          |                        |              |                        |
| • Number in pay status                                                         | 260                    | 264          | -1.5%                  |
| • Average age                                                                  | 74.3                   | 74.6         | -0.3                   |
| • Average monthly benefit                                                      | \$2,866                | \$2,710      | 5.8%                   |
| Disabled participants:                                                         |                        |              |                        |
| • Number in pay status                                                         | 42                     | 46           | -8.7%                  |
| • Average age                                                                  | 68.6                   | 67.9         | 0.7                    |
| • Average monthly benefit                                                      | \$3,197                | \$2,987      | 7.0%                   |
| Beneficiaries:                                                                 |                        |              |                        |
| • Number in pay status                                                         | 49                     | 44           | 11.4%                  |
| • Average age                                                                  | 74.7                   | 74.7         | 0.0                    |
| • Average monthly benefit                                                      | \$1,706                | \$1,560      | 9.4%                   |

**Notes:**

Payroll figures are for the prior calendar year and reflect annualized salaries for participants hired during the year.

Calendar year 2017 payroll figures for Patrolmen, Firefighters, and SEIU participants were increased by 0.875%, 0.625% and 1.00%, respectively, to reflect bargaining agreements settled in 2018.

## Section 3: Supplemental Information

### Exhibit B: Participants in Active Service as of December 31, 2019 by Age, Years of Service, and Average Payroll

| Age       | Years of Service |          |          |          |           |           |           |          |           |           |
|-----------|------------------|----------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|
|           | Total            | 0 - 4    | 5 - 9    | 10 - 14  | 15 - 19   | 20 - 24   | 25 - 29   | 30 - 34  | 35 - 39   | 40 & over |
| Under 25  | 15               | 15       | --       | --       | --        | --        | --        | --       | --        | --        |
|           | \$30,494         | \$30,494 | --       | --       | --        | --        | --        | --       | --        | --        |
| 25 - 29   | 56               | 51       | 5        | --       | --        | --        | --        | --       | --        | --        |
|           | \$42,178         | \$41,586 | \$48,219 | --       | --        | --        | --        | --       | --        | --        |
| 30 - 34   | 58               | 28       | 23       | 6        | 1         | --        | --        | --       | --        | --        |
|           | \$60,316         | \$48,517 | \$74,527 | \$51,387 | \$117,414 | --        | --        | --       | --        | --        |
| 35 - 39   | 54               | 17       | 15       | 16       | 6         | --        | --        | --       | --        | --        |
|           | \$67,568         | \$38,466 | \$72,866 | \$83,592 | \$94,048  | --        | --        | --       | --        | --        |
| 40 - 44   | 43               | 18       | 8        | 10       | 6         | 1         | --        | --       | --        | --        |
|           | \$57,221         | \$32,478 | \$70,085 | \$73,332 | \$84,465  | \$75,086  | --        | --       | --        | --        |
| 45 - 49   | 59               | 21       | 6        | 5        | 15        | 7         | 5         | --       | --        | --        |
|           | \$69,320         | \$43,852 | \$93,640 | \$79,268 | \$74,761  | \$106,052 | \$69,402  | --       | --        | --        |
| 50 - 54   | 61               | 19       | 8        | 6        | 7         | 9         | 6         | 6        | --        | --        |
|           | \$66,231         | \$37,611 | \$38,491 | \$61,741 | \$67,535  | \$104,380 | \$112,028 | \$93,799 | --        | --        |
| 55 - 59   | 62               | 14       | 6        | 13       | 8         | 4         | 5         | 8        | 4         | --        |
|           | \$63,682         | \$33,898 | \$58,719 | \$57,682 | \$50,760  | \$71,783  | \$87,878  | \$96,292 | \$117,148 | --        |
| 60 - 64   | 46               | 7        | 5        | 6        | 7         | 12        | 3         | 4        | 1         | 1         |
|           | \$65,939         | \$44,831 | \$53,780 | \$44,645 | \$71,345  | \$66,862  | \$95,981  | \$92,273 | \$98,162  | \$125,644 |
| 65 - 69   | 26               | 5        | 3        | 2        | 4         | 8         | 4         | --       | --        | --        |
|           | \$53,508         | \$53,792 | \$69,142 | \$50,084 | \$76,442  | \$34,317  | \$58,590  | --       | --        | --        |
| 70 & over | 18               | --       | 2        | 4        | 6         | 2         | 2         | 1        | --        | 1         |
|           | \$40,543         | --       | \$24,724 | \$57,439 | \$41,989  | \$21,959  | \$16,950  | \$64,762 | --        | \$56,061  |
| Total     | 498              | 195      | 81       | 68       | 60        | 43        | 25        | 19       | 5         | 2         |
|           | \$59,557         | \$40,349 | \$66,133 | \$66,082 | \$70,764  | \$73,600  | \$80,591  | \$92,999 | \$113,350 | \$90,852  |

## Section 3: Supplemental Information

### Exhibit C: Summary Statement of Income and Expenses on a Market Value Basis

|                                                          | Year Ended<br>December 31, 2019 | Year Ended<br>December 31, 2018 |
|----------------------------------------------------------|---------------------------------|---------------------------------|
| Net assets at market value at the beginning of the year  | \$106,008,143                   | \$108,963,549                   |
| <b>Contribution income:</b>                              |                                 |                                 |
| • Employer contributions                                 | \$10,197,676                    | \$9,643,193                     |
| • Employee contributions                                 | 3,005,384                       | 2,770,687                       |
| • Federal Grant Reimbursement and Other contributions    | 0                               | -3,000                          |
| • Less administrative expenses                           | <u>-315,261</u>                 | <u>-314,673</u>                 |
| <i>Net contribution income</i>                           | 12,887,799                      | 12,096,207                      |
| Net investment income                                    | <u>16,768,138</u>               | <u>-3,322,333</u>               |
| <b>Total income available for benefits</b>               | <b>\$29,655,937</b>             | <b>\$8,773,874</b>              |
| <b>Less benefit payments:</b>                            |                                 |                                 |
| • Pensions                                               | <u>-\$11,338,672</u>            | <u>-\$11,496,429</u>            |
| • Net 3(8)(c) reimbursements                             | <u>-242,127</u>                 | <u>-232,851</u>                 |
| <i>Net benefit payments</i>                              | <u>-\$11,580,799</u>            | <u>-\$11,729,280</u>            |
| <b>Change in reserve for future benefits</b>             | <b>\$18,075,138</b>             | <b>-\$2,955,406</b>             |
| <b>Net assets at market value at the end of the year</b> | <b>\$124,083,281</b>            | <b>\$106,008,143</b>            |

## Section 3: Supplemental Information

### Exhibit D: Department Results

|                                                                      | Town of Belmont | Housing Authority | Light Department | Water     | School      | Police and Fire | Total         |
|----------------------------------------------------------------------|-----------------|-------------------|------------------|-----------|-------------|-----------------|---------------|
| <b>Active members:</b>                                               |                 |                   |                  |           |             |                 |               |
| • Number                                                             | 129             | 7                 | 32               | 9         | 205         | 116             | 498           |
| • Average age                                                        | 48.4            | 44.2              | 46.5             | 52.7      | 46.8        | 43.6            | 46.5          |
| • Average service                                                    | 12.1            | 8.8               | 12.4             | 18.5      | 7.3         | 14.4            | 10.7          |
| • Total payroll                                                      | 8,961,947       | 399,211           | 3,181,228        | 660,756   | 7,082,846   | 9,373,301       | 29,659,289    |
| • Average annual payroll                                             | \$69,472        | \$57,030          | \$99,413         | \$73,417  | \$34,550    | \$80,804        | \$59,557      |
| <b>Pensioners and beneficiaries:</b>                                 |                 |                   |                  |           |             |                 |               |
| • Number                                                             | 105             | 5                 | 27               | 15        | 77          | 122             | 351           |
| • Average benefit                                                    | \$30,291        | \$34,128          | \$37,452         | \$35,681  | \$17,342    | \$43,621        | \$32,919      |
| <b>Inactive members:</b>                                             |                 |                   |                  |           |             |                 |               |
| • Number                                                             | 43              | 1                 | 4                | 1         | 215         | 6               | 270           |
| <b>Appropriations by department:</b>                                 |                 |                   |                  |           |             |                 |               |
| • Total FY 2021 appropriation                                        | \$3,482,321     | \$128,362         | \$1,106,072      | \$216,950 | \$2,260,027 | \$3,590,311     | \$10,784,043  |
| • FY 2022 payroll allocation of appropriation excluding ERI payments | 3,374,954       | 150,338           | 1,198,009        | 248,832   | 2,667,309   | 3,529,864       | 11,169,306    |
| • FY 2022 ERI payments                                               | <u>89,931</u>   | <u>4,696</u>      | <u>0</u>         | <u>0</u>  | <u>0</u>    | <u>0</u>        | <u>94,627</u> |
| • Total FY 2022 appropriation                                        | \$3,464,885     | \$155,034         | \$1,198,009      | \$248,832 | \$2,667,309 | \$3,529,864     | \$11,263,933  |
| • FY 2023 payroll allocation of appropriation excluding ERI payments | 3,525,125       | 157,027           | 1,251,316        | 259,904   | 2,785,993   | 3,686,928       | 11,666,293    |
| • FY 2023 ERI payments                                               | <u>93,978</u>   | <u>4,907</u>      | <u>0</u>         | <u>0</u>  | <u>0</u>    | <u>0</u>        | <u>98,885</u> |
| • Total FY 2023 appropriation                                        | \$3,619,103     | \$161,934         | \$1,251,316      | \$259,904 | \$2,785,993 | \$3,686,928     | \$11,765,178  |

**Note**

Fiscal 2021 appropriations are set equal to the budgeted amounts determined under the prior valuation.

## Section 3: Supplemental Information

### Exhibit E: Definition of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

|                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Actuarial Accrued Liability for Actives:</b>                      | The equivalent of the accumulated normal costs allocated to the years before the valuation date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Actuarial Accrued Liability for Pensioners and Beneficiaries:</b> | Actuarial Present Value of lifetime benefits to existing pensioners and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Actuarial Cost Method:</b>                                        | A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Actuarial Gain or Loss:</b>                                       | A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield actuarial liabilities that are larger than projected. |
| <b>Actuarially Equivalent:</b>                                       | Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Actuarial Present Value (APV):</b>                                | <p>The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is:</p> <p>Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)</p> <p>Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, and</p> <p>Discounted according to an assumed rate (or rates) of return to reflect the time value of money.</p>                                                                                                                                                                           |
| <b>Actuarial Present Value of Future Benefits:</b>                   | The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund of member contributions or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.                                                               |

## Section 3: Supplemental Information

|                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Actuarial Valuation:</b>                       | The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan, as well as Actuarially Determined Contributions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Actuarial Value of Assets (AVA):</b>           | The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the Actuarially Determined Contribution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Actuarially Determined:</b>                    | Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Actuarially Determined Contribution (ADC):</b> | The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Amortization Method:</b>                       | A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.                                                                                                                      |
| <b>Amortization Payment:</b>                      | The portion of the pension plan contribution, or ADC, that is intended to pay off the Unfunded Actuarial Accrued Liability.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Assumptions or Actuarial Assumptions:</b>      | The estimates upon which the cost of the Plan is calculated, including:<br><u>Investment return</u> - the rate of investment yield that the Plan will earn over the long-term future;<br><u>Mortality rates</u> - the rate or probability of death at a given age for employees and pensioners;<br><u>Retirement rates</u> - the rate or probability of retirement at a given age or service;<br><u>Disability rates</u> - the rate or probability of disability retirement at a given age;<br><u>Withdrawal rates</u> - the rate or probability at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement;<br><u>Salary increase rates</u> - the rates of salary increase due to inflation, real wage growth and merit and promotion increases. |
| <b>Closed Amortization Period:</b>                | A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 20 years, it is 19 years at the end of one year, 18 years at the end of two years, etc. See Open Amortization Period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Decrements:</b>                                | Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or withdrawal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Section 3: Supplemental Information

|                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Defined Benefit Plan:</b>          | A retirement plan in which benefits are defined by a formula based on the member's compensation, age and/or years of service.                                                                                                                                                                                                                                                                                                                                               |
| <b>Defined Contribution Plan:</b>     | A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.                                                                                                                                                                                      |
| <b>Employer Normal Cost:</b>          | The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.                                                                                                                                                                                                                                                                                                                                             |
| <b>Experience Study:</b>              | A periodic review and analysis of the actual experience of the Plan that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified based on recommendations from the Actuary.                                                                                                                                                                                 |
| <b>Funded Ratio:</b>                  | The ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). Plans sometimes also calculate a market funded ratio, using the Market Value of Assets (MVA), rather than the AVA.                                                                                                                                                                                                                                                               |
| <b>GASB 67 and GASB 68:</b>           | Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.                                      |
| <b>Investment Return:</b>             | The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.                                                                                               |
| <b>Net Pension Liability (NPL):</b>   | The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Normal Cost:</b>                   | The portion of the Actuarial Present Value of Future Benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment with respect to an Unfunded Actuarial Accrued Liability is not part of the Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of member contributions and employer Normal Cost unless otherwise specifically stated. |
| <b>Open Amortization Period:</b>      | An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in each future year in determining the Amortization Period.                                                                                                                                                                                                           |
| <b>Plan Fiduciary Net Position:</b>   | Market value of assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Total Pension Liability (TPL):</b> | The actuarial accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.                                                                                                                                                                                                                                                                                                                               |

## Section 3: Supplemental Information

|                                                    |                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Unfunded Actuarial Accrued Liability:</b>       | The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative, in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus or an Overfunded Actuarial Accrued Liability. |
| <b>Valuation Date or Actuarial Valuation Date:</b> | The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Benefits is determined. The expected benefits to be paid in the future are discounted to this date.                                                                  |

# Section 4: Actuarial Valuation Basis

## Exhibit I: Statement of Actuarial Assumptions, Methods and Models

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                       |                |                |                |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|
| <b>Net Investment Return:</b>              | 7.15% (previously, 7.40%)<br>The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation. |                |                |                |
| <b>Salary Increases:</b>                   | <b>Years of Service</b>                                                                                                                                                                                                                                                                                                                                                                                               | <b>Group 1</b> | <b>Group 2</b> | <b>Group 4</b> |
|                                            | 0                                                                                                                                                                                                                                                                                                                                                                                                                     | 6.00%          | 6.00%          | 7.00%          |
|                                            | 1                                                                                                                                                                                                                                                                                                                                                                                                                     | 5.50%          | 5.50%          | 6.50%          |
|                                            | 2                                                                                                                                                                                                                                                                                                                                                                                                                     | 5.50%          | 5.50%          | 6.00%          |
|                                            | 3                                                                                                                                                                                                                                                                                                                                                                                                                     | 5.00%          | 5.00%          | 5.50%          |
|                                            | 4                                                                                                                                                                                                                                                                                                                                                                                                                     | 5.00%          | 5.00%          | 5.00%          |
|                                            | 5                                                                                                                                                                                                                                                                                                                                                                                                                     | 4.50%          | 4.50%          | 5.00%          |
|                                            | 6                                                                                                                                                                                                                                                                                                                                                                                                                     | 4.50%          | 4.50%          | 4.50%          |
|                                            | 7                                                                                                                                                                                                                                                                                                                                                                                                                     | 4.00%          | 4.00%          | 4.50%          |
|                                            | 8                                                                                                                                                                                                                                                                                                                                                                                                                     | 4.00%          | 4.00%          | 4.25%          |
|                                            | 9+                                                                                                                                                                                                                                                                                                                                                                                                                    | 3.75%          | 3.75%          | 4.25%          |
|                                            | Includes an allowance for inflation of 3.0% per year.<br>The salary increase assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgement.                                                                                                                                                                                                     |                |                |                |
| <b>Interest on Employee Contributions:</b> | 3.5%                                                                                                                                                                                                                                                                                                                                                                                                                  |                |                |                |
| <b>Administrative Expenses:</b>            | \$330,000 for calendar year 2020, increasing 3.0% per year (previously \$290,000 for calendar 2018, increasing 3.0% per year).<br>The administrative expense assumption is based on information on expenses provided by the Retirement System.                                                                                                                                                                        |                |                |                |

## Section 4: Actuarial Valuation Basis

### Mortality Rates:

*Pre-Retirement:* RP-2014 Blue Collar Employee Mortality Table set forward one year for females and projected generationally with Scale MP-2017

*Healthy Retiree:* RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for females and projected generationally with Scale MP-2017

*Disabled Retiree:* RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017

The underlying tables with generational projection to the ages of participants as of the measurement date reasonably reflect the mortality experience of the plan as of the measurement date based on historical and current demographic data. As part of the analysis, a comparison was made between the actual number of retiree deaths and the projected number based on the prior years' assumption over the most recent six years. The mortality tables were then adjusted to future years using the generational projection to reflect future mortality improvement between the measurement date and those years.

### Termination Rates before Retirement:

| Age | Groups 1 and 2 – Rate (%) |        |            |
|-----|---------------------------|--------|------------|
|     | Mortality                 |        |            |
|     | Male                      | Female | Disability |
| 20  | 0.05                      | 0.02   | 0.01       |
| 25  | 0.06                      | 0.02   | 0.02       |
| 30  | 0.06                      | 0.03   | 0.03       |
| 35  | 0.07                      | 0.03   | 0.06       |
| 40  | 0.08                      | 0.05   | 0.10       |
| 45  | 0.13                      | 0.08   | 0.15       |
| 50  | 0.22                      | 0.14   | 0.19       |
| 55  | 0.36                      | 0.20   | 0.24       |
| 60  | 0.61                      | 0.30   | 0.28       |

#### Notes:

Mortality rates do not reflect generational projection.

90% of the disability rates shown represent accidental disability.

20% of the accidental disabilities will die from the same cause as the disability.

55% of the death rates shown represent accidental death.

## Section 4: Actuarial Valuation Basis

| Age | Group 4 – Rate (%) |        |            |
|-----|--------------------|--------|------------|
|     | Mortality          |        | Disability |
|     | Male               | Female |            |
| 20  | 0.05               | 0.02   | 0.10       |
| 25  | 0.06               | 0.02   | 0.20       |
| 30  | 0.06               | 0.03   | 0.30       |
| 35  | 0.07               | 0.03   | 0.30       |
| 40  | 0.08               | 0.05   | 0.30       |
| 45  | 0.13               | 0.08   | 1.00       |
| 50  | 0.22               | 0.14   | 1.25       |
| 55  | 0.36               | 0.20   | 1.20       |
| 60  | 0.61               | 0.30   | 0.85       |

**Notes:**

Mortality rates do not reflect generational projection.

90% of the disability rates shown represent accidental disability.

60% of the accidental disabilities will die from the same cause as the disability.

90% of the death rates shown represent accidental death.

## Section 4: Actuarial Valuation Basis

### Withdrawal Rates:

| Rate per year (%) |         |
|-------------------|---------|
| Years of Service  | Group 4 |
| 0                 | 15.0    |
| 1                 | 12.0    |
| 2                 | 10.0    |
| 3                 | 9.0     |
| 4                 | 8.0     |
| 5                 | 7.6     |
| 6                 | 7.5     |
| 7                 | 6.7     |
| 8                 | 6.3     |
| 9                 | 5.9     |
| 10                | 5.4     |
| 11                | 5.0     |
| 12                | 4.6     |
| 13                | 4.1     |
| 14                | 3.7     |
| 15                | 3.3     |
| 16 – 20           | 2.0     |
| 21 – 29           | 1.0     |
| 30+               | 0.0     |

The termination and disability rates were based on historical and current demographic data, adjusted to reflect economic conditions of the area and estimated future experience and professional judgment. As part of the analysis, a comparison was made between the actual number of terminations and the projected number based on the prior years' assumptions over the past six years.

## Section 4: Actuarial Valuation Basis

### Retirement Rates:

| Age     | Rate per year (%) |        |         |
|---------|-------------------|--------|---------|
|         | Groups 1 and 2    |        | Group 4 |
|         | Male              | Female |         |
| 45 – 49 | --                | --     | 1.0     |
| 50 – 51 | 1.0               | 1.5    | 2.0     |
| 52      | 1.0               | 2.0    | 2.0     |
| 53      | 1.0               | 2.5    | 5.0     |
| 54      | 2.0               | 2.5    | 7.5     |
| 55      | 2.0               | 5.5    | 15.0    |
| 56 – 57 | 2.5               | 6.5    | 10.0    |
| 58      | 5.0               | 6.5    | 10.0    |
| 59      | 6.5               | 6.5    | 15.0    |
| 60      | 12.0              | 5.0    | 20.0    |
| 61      | 20.0              | 13.0   | 20.0    |
| 62      | 30.0              | 15.0   | 25.0    |
| 63      | 25.0              | 12.5   | 25.0    |
| 64      | 22.0              | 18.0   | 30.0    |
| 65      | 40.0              | 15.0   | 100.0   |
| 66 – 67 | 25.0              | 20.0   | --      |
| 68      | 30.0              | 25.0   | --      |
| 69      | 30.0              | 20.0   | --      |
| 70      | 100.0             | 100.0  | --      |

The retirement rates were based on historical and current demographic data, adjusted to reflect economic conditions of the area and estimated future experience and professional judgment. As part of the analysis, a comparison was made between the actual number of retirements by age and the projected number based on the prior years' assumptions over the past six years.

## Section 4: Actuarial Valuation Basis

|                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Retirement Age for Inactive Vested Participants:</b>   | Age 60 for Group 1 and Group 2 members and age 55 for Group 4 members hired prior to April 2, 2012. For members hired April 2, 2012 or later, age 60 for Group 1 members, age 55 for Group 2 members and age 50 for Group 4 members.<br><br>The retirement age for inactive vested participants was based on historical and current demographic data, adjusted to reflect the economic conditions of the area and estimated future experience and professional judgment. |
| <b>Unknown Data for Participants:</b>                     | Same as those exhibited by participants with similar known characteristics. If not specified, participants are assumed to be male.                                                                                                                                                                                                                                                                                                                                       |
| <b>Family Composition:</b>                                | 80% of participants are assumed to be married. None are assumed to have dependent children. Females are assumed to be three years younger than their spouses.                                                                                                                                                                                                                                                                                                            |
| <b>Benefit Election:</b>                                  | All participants are assumed to elect Option A. The benefit election reflects the fact that all benefit options are actuarially equivalent.                                                                                                                                                                                                                                                                                                                              |
| <b>2019 Salary:</b>                                       | 2019 salaries are equal to salaries provided in the data except for employees hired in 2019 for whom salaries were annualized.                                                                                                                                                                                                                                                                                                                                           |
| <b>Total Service:</b>                                     | Total creditable service reported in the data.                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Net 3(8)(c) Liability:</b>                             | \$240,000 for calendar year 2020, increasing 3.0% per year, added to normal cost (previously \$200,000 for calendar year 2018, increasing 3.0% per year).                                                                                                                                                                                                                                                                                                                |
| <b>Actuarial Value of Assets:</b>                         | Market value of assets as reported in the System's Annual Statement less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual market value return and the expected market value return and is recognized at 20% per year over a five-year period, further adjusted, if necessary, to be within 20% of the market value. Market value of assets as reported in the Annual Statement.                     |
| <b>Actuarial Cost Method:</b>                             | Entry Age Normal Actuarial Cost Method. Entry Age is the age of the participant less total creditable service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary. Normal Cost is determined by using the plan of benefits applicable to each participant.                                                                                                                                                    |
| <b>Justification for Change in Actuarial Assumptions:</b> | Based on past experience and future expectations: <ul style="list-style-type: none"> <li>• The investment return assumption was lowered from 7.40% to 7.15%.</li> <li>• The administrative expense assumption was increased from \$290,000 to \$330,000.</li> <li>• The allowance for net3(8)(c) reimbursements was increased from \$200,000 to \$240,000.</li> </ul>                                                                                                    |

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

## Section 4: Actuarial Valuation Basis

### Exhibit II: Summary of Plan Provisions

This exhibit summarizes the major provisions of the Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

| <b>Plan Year:</b>                       | January 1 through December 31                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |            |            |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|--|-----------------------------------------|--|--|--|---------|---------|---------|---------|-----|------------|------------|------------|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|-----|----|----|----|
| <b>Plan Status:</b>                     | Ongoing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |            |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| <b>Retirement Benefits:</b>             | <p>Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)</p> <p>For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the following table based on the age of the member at retirement:</p> <table><tr><th colspan="4">Age Last Birthday at Date of Retirement</th></tr><tr><th>Percent</th><th>Group 1</th><th>Group 2</th><th>Group 4</th></tr><tr><td>2.5</td><td>65 or over</td><td>60 or over</td><td>55 or over</td></tr><tr><td>2.4</td><td>64</td><td>59</td><td>54</td></tr><tr><td>2.3</td><td>63</td><td>58</td><td>53</td></tr><tr><td>2.2</td><td>62</td><td>57</td><td>52</td></tr><tr><td>2.1</td><td>61</td><td>56</td><td>51</td></tr><tr><td>2.0</td><td>60</td><td>55</td><td>50</td></tr><tr><td>1.9</td><td>59</td><td>--</td><td>49</td></tr><tr><td>1.8</td><td>58</td><td>--</td><td>48</td></tr><tr><td>1.7</td><td>57</td><td>--</td><td>47</td></tr><tr><td>1.6</td><td>56</td><td>--</td><td>46</td></tr><tr><td>1.5</td><td>55</td><td>--</td><td>45</td></tr></table> <p>A member's final three-year average salary is defined as the greater of the highest consecutive three-year average annual rate of regular compensation and the average annual rate of regular compensation received during the last three years of creditable service prior to retirement.</p> |            |            |  | Age Last Birthday at Date of Retirement |  |  |  | Percent | Group 1 | Group 2 | Group 4 | 2.5 | 65 or over | 60 or over | 55 or over | 2.4 | 64 | 59 | 54 | 2.3 | 63 | 58 | 53 | 2.2 | 62 | 57 | 52 | 2.1 | 61 | 56 | 51 | 2.0 | 60 | 55 | 50 | 1.9 | 59 | -- | 49 | 1.8 | 58 | -- | 48 | 1.7 | 57 | -- | 47 | 1.6 | 56 | -- | 46 | 1.5 | 55 | -- | 45 |
| Age Last Birthday at Date of Retirement |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |            |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| Percent                                 | Group 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Group 2    | Group 4    |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.5                                     | 65 or over                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 60 or over | 55 or over |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.4                                     | 64                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 59         | 54         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.3                                     | 63                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 58         | 53         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.2                                     | 62                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 57         | 52         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.1                                     | 61                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 56         | 51         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 2.0                                     | 60                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 55         | 50         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 1.9                                     | 59                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | --         | 49         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 1.8                                     | 58                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | --         | 48         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 1.7                                     | 57                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | --         | 47         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 1.6                                     | 56                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | --         | 46         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |
| 1.5                                     | 55                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | --         | 45         |  |                                         |  |  |  |         |         |         |         |     |            |            |            |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |     |    |    |    |

## Section 4: Actuarial Valuation Basis

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the following tables based on the age and years of creditable service of the member at retirement:

**For members with less than 30 years of creditable service:  
Age Last Birthday at Date of Retirement**

| Percent | Group 1    | Group 2    | Group 4    |
|---------|------------|------------|------------|
| 2.50    | 67 or over | 62 or over | 57 or over |
| 2.35    | 66         | 61         | 56         |
| 2.20    | 65         | 60         | 55         |
| 2.05    | 64         | 59         | 54         |
| 1.90    | 63         | 58         | 53         |
| 1.75    | 62         | 57         | 52         |
| 1.60    | 61         | 56         | 51         |
| 1.45    | 60         | 55         | 50         |

**For members with 30 years of creditable service or greater:  
Age Last Birthday at Date of Retirement**

| Percent | Group 1    | Group 2    | Group 4    |
|---------|------------|------------|------------|
| 2.500   | 67 or over | 62 or over | 57 or over |
| 2.375   | 66         | 61         | 56         |
| 2.250   | 65         | 60         | 55         |
| 2.125   | 64         | 59         | 54         |
| 2.000   | 63         | 58         | 53         |
| 1.875   | 62         | 57         | 52         |
| 1.750   | 61         | 56         | 51         |
| 1.625   | 60         | 55         | 50         |

A member's final five-year average salary is defined as the greater of the highest consecutive five-year average annual rate of regular compensation and the average annual rate of regular compensation received during the last five years of creditable service prior to retirement.

## Section 4: Actuarial Valuation Basis

For employees who became members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation for members who retire after April 2, 2012 will be limited to prohibit “spiking” of a member’s salary to increase the retirement benefit.

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member’s final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

### Employee Contributions:

| Date of Hire                        | Contribution Rate |
|-------------------------------------|-------------------|
| Prior to January 1, 1975            | 5%                |
| January 1, 1975 – December 31, 1983 | 7%                |
| January 1, 1984 – June 30, 1996     | 8%                |
| July 1, 1996 onward                 | 9%                |

In addition, employees hired after December 31, 1978 contribute an additional 2 percent of salary in excess of \$30,000.

Employees hired after 1983 who voluntarily withdraw their contributions with less than 10 ten years of credited service receive 3% interest on their contributions.

Employees in Group 1 hired on or after April 2, 2012 with 30 years of creditable service or greater will pay a base contribution rate of 6%.

### Retirement Benefits (Superannuation):

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55. Members of Group 4 may retire upon attainment of age 50 with ten years of creditable service.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

## Section 4: Actuarial Valuation Basis

|                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Ordinary Disability Benefit:</b>                 | A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Accidental Disability Benefit:</b>               | For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Death Benefits:</b>                              | <p>In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.</p> <p>If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death.</p> <p>Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$12,000 per year if the member dies for a reason unrelated to cause of disability.</p> |
| <b>"Heart And Lung Law" And Cancer Presumption:</b> | Any case of hypertension or heart disease resulting in total or partial disability or death to a uniformed fireman, permanent member of a police department, or certain employees of a county correctional facility is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. Any case of disease of the lungs or respiratory tract resulting in total disability or death to a uniformed fireman is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. There is an additional presumption for uniformed firemen that certain types of cancer are job-related if onset occurs while actively employed or within five years of retirement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Options:</b>                                     | Members may elect to receive a full retirement allowance payable for life under Option A. Under Option B a member may elect to receive a lower monthly allowance in exchange for a guarantee that at the time of death any contributions not expended for annuity payments will be refunded to the beneficiary. Option C allows the member to take a lesser retirement allowance in exchange for providing a survivor with two-thirds of the lesser amount. Option C pensioners will have benefits converted from a reduced to a full retirement if the beneficiary predeceases the retiree.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

## Section 4: Actuarial Valuation Basis

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Post-Retirement Benefits:</b>   | The Board has adopted the provisions of Section 51 of Chapter 127 of the Acts of 1999, which provide that the Retirement Board may approve an annual COLA in excess of the Consumer Price Index but not to exceed a 3% COLA on the first \$13,000 of a retirement allowance. Cost-of-living increases granted prior to July 1, 1998 are reimbursed by the Commonwealth and not reflected in this report. |
| <b>Changes in Plan Provisions:</b> | None                                                                                                                                                                                                                                                                                                                                                                                                     |