

Update to Warrant Committee by POD (Pension, OPEB, Debt) Subcommittee

December 16, 2020

Agenda – Update on Pension

- Refresh – Belmont Retirement System Background
- New Actuarial Report
- Funding Schedule
- Investment Approach

Refresher Background on Belmont Retirement System

- Created in 1938 under MA GL Chapter 32
- Independent unit subject to State regulations of PERAC (Public Employee Retirement Administration Commission)
- Five-member board – 1 appointed by SB; 1 is Town Accountant; 2 are elected by System participants; 1 selected by the other 4 members.
 - SB appointment in Floyd Carmen, recently reappointed
 - “At-large” member position is currently posted
 - Town Budget director is acting for Town Accountant
- Responsibilities are to administer the Retirement System for active employees and retirees and to manage assets supporting the Retirement System

New Actuarial Report

- Prepared every two years by actuary (Segal), who is engaged by BRS, not by the Town
- Most recent actuarial report is as of 1/1/20
 - 1/1/20 Report documents changes from the 1/1/18 Report
 - Report is submitted to PERAC by BRS
 - Actuarial report presents a proposed funding schedule for the System, which must meet various State requirements (ie full funding by 2040, no reduction in annual funding below prior year, etc)

Actuarial Report Acronyms and Terminology

A few lay person's terms are below:

- Normal Cost – retirement obligation accrued in a particular year by employees
- Unfunded Liability – difference between System liabilities accrued over time and the value of the System's assets
 - For Belmont this is \$79.5 million with the 1/1/20 valuation, up from \$76.6 million
- Investment rate assumption – long term rate of earnings on investments, including some smoothing to avoid large annual swings in asset value
 - For Belmont this is 7.14% with the 1/1/20 valuation, down from 7.40%
- Funded Ratio - Ratio of actuarial value of assets to actuarial accrued liability. For Belmont this is 60.4% with the 1/1/20 valuation, up from 58.2%

Revised funding Schedule

- Revised funding schedule was recommended by Segal and calls for appropriations to increase each year by about 4.45% and to extend to 2031. Without the extension, the rate of increase would have been 8.35% per year. Largest driver of the changes is the reduction of the assumed investment rate from 7.4% to 7.14%

	Employer Normal Cost	Amort of ERI & Remaining Unfunded Liabilities	Total Actuarial Contribution	% Change from Prior Year
FY21	\$2.256	\$8.528	\$10.784	
FY22	\$2.331	\$8.932	\$11.263	4.4%
FY23	\$2.409	\$9.356	\$11.765	4.5%
FY24	\$2.489	\$9.799	\$12.288	4.4%
FY25	\$2.572	\$10.264	\$12.836	4.5%
FY26	\$2.657	\$10.749	\$13.406	4.4%
FY27	\$2.746	\$11.257	\$14.003	4.5%
FY28	\$2.837	\$11.789	\$14.626	4.4%
FY29	\$2.931	\$12.345	\$15.276	4.4%
FY30	\$3.03	\$12.928	\$15.957	4.5%
FY31	\$3.130	\$13.129	\$16.259	1.9%
FY32	\$3.234		\$3.234	-80.1%

Investment of Retirement System Assets

- BRS oversees the investment of the System's assets – approximately \$124 million as of 1/1/20
- BRS retains an independent investment consultant – New England Pension Consultants (NEPC) to advise it on investments and manager selection
- BRS oversees several investment managers (between about 5-10)
- Retirement Systems can elect to control their investments independently as Belmont does or to join PRIT
- A Retirement System can be a Participant in the State's PRIT (transfer all assets to PRIT for a minimum of five years -- ~ 50 systems with \$64 bln assets) or be a Non-PRIT system (~ 55 systems with \$18 bln assets)
 - A Non-PRIT system can invest in select PRIT funds, as Belmont does (about 48% of Belmont assets are invested in PRIT)

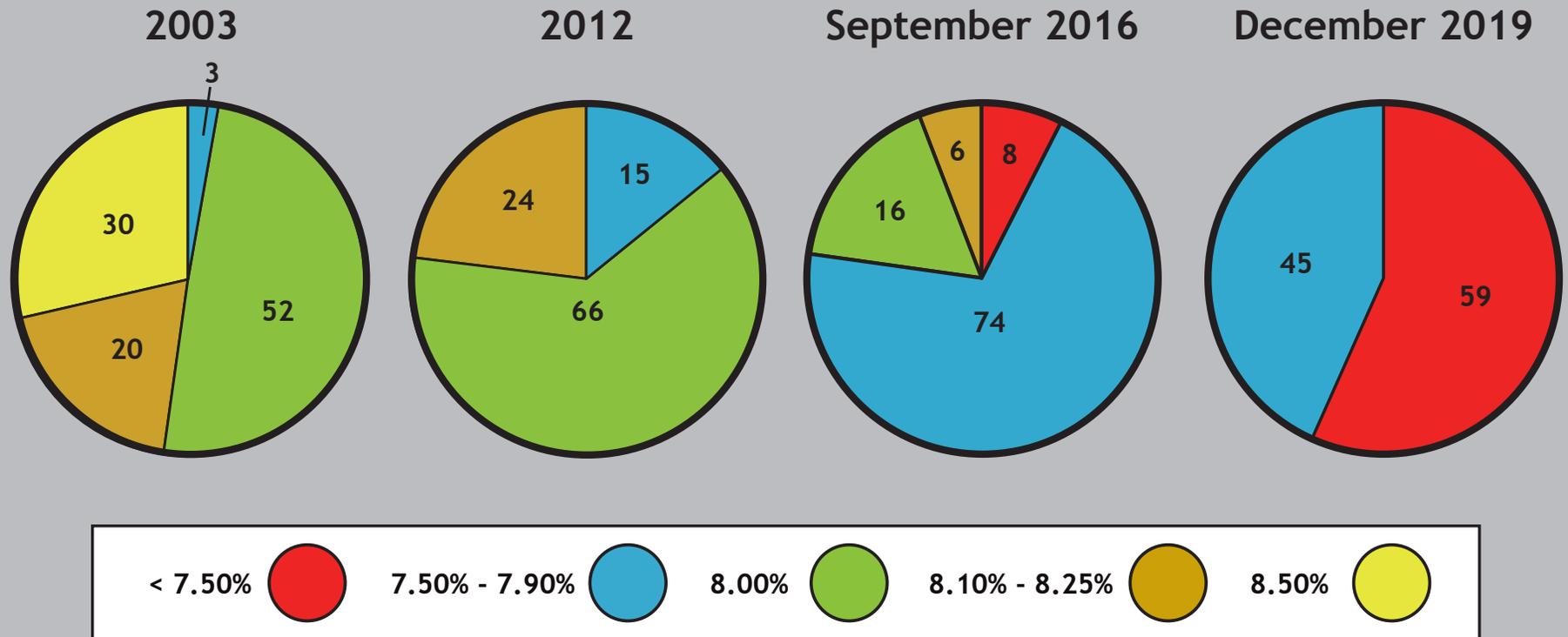
Investment of Retirement System Assets

- Investment performance is evaluated on a gross and net basis.
 - In 2018 BRS expense ratio for investments was .68%; the PRIT expense ratio was ~ .54%; the 2018 average expense ratio across all systems was .58%
- It appears that Belmont's average annual returns over the past 5 and the past 10 years were lower than those of PRIT on a net basis.
- POD Subcommittee has further research to complete to incorporate some materials provided to it by the RS this week
- The Subcommittee would like to calculate the potential opportunity cost of the difference in investment performance and expense ratios

Investment of Retirement System Assets

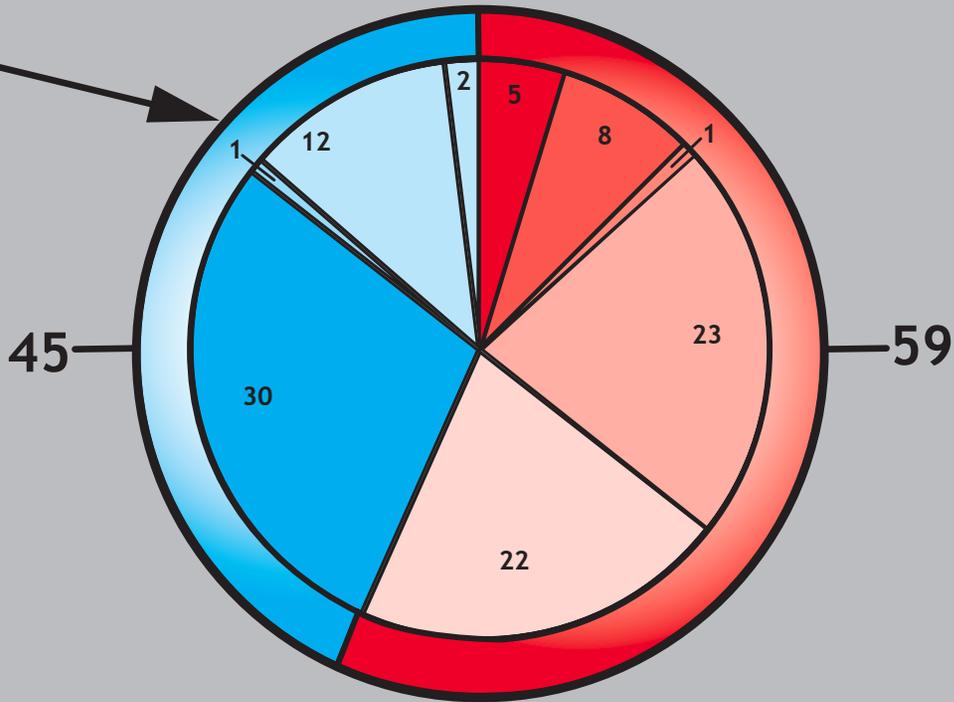
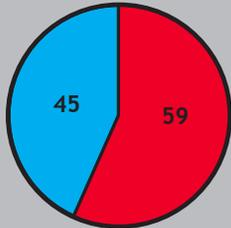
- There are benefits and considerations for local control of assets and PRIT control
 - Expenses
 - Access to investment
 - Investment performance and Expertise
 - Fiduciary board member considerations
- POD Subcommittee has further research to complete on these comparative matters.
- Note that the BRS – retains control of the administration of retirement benefits regardless of investment approach.

Investment Return Assumptions For Massachusetts Public Plans



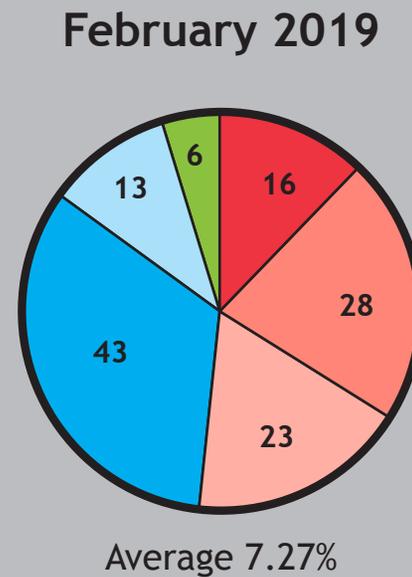
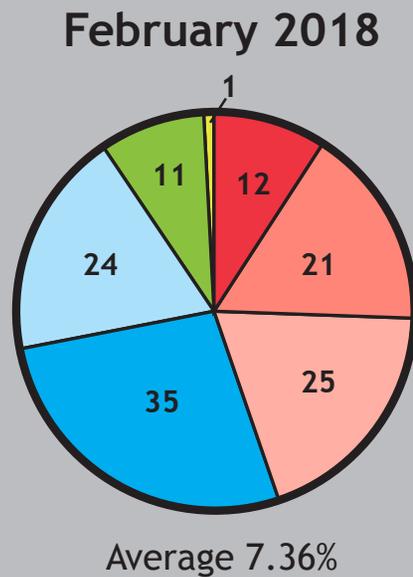
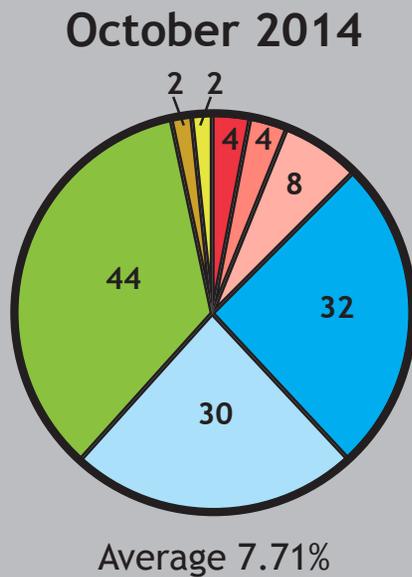
Current Investment Return Assumptions For Massachusetts Public Plans

December 2019



Investment Return Assumptions

National State, Teacher, and City Plans



Source: NASRA Public Fund Survey of Large Plans, February 2019 and prior

