



Arlington Retirement System

Actuarial Valuation
January 1, 2007

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July 19, 2007

Arlington Retirement Board
869 Massachusetts Avenue, Room 102
Arlington, MA 02476

Dear Arlington Retirement Board Members:

Stone Consulting, Inc. has performed a January 1, 2007 actuarial valuation of the Arlington Retirement System. This valuation and report was prepared using generally accepted actuarial principles and practices and meets the parameters set by the Governmental Accounting Standards Board Statement (GASB) No. 25. To the best of our knowledge, this report is complete and accurate, and the assumptions used represent our best estimate of anticipated experience of the system.

As part of performing the valuation, Stone Consulting, Inc. was furnished member data by the Arlington Retirement System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary. In addition, the administrative staff furnished financial statements that were not audited by the actuary or by the plan's auditors.

We anticipate over time that the contribution level to decrease as a percentage of payroll. The contribution rate is determined by adding the normal cost plus an amortization of the unfunded actuarial accrued liability. The normal cost is expected to remain at a level percentage of payroll. The length of the funding schedule contained in this actuarial valuation report is eleven (11) years for the fresh start base that accounts for over 98% of the unfunded liability. The amortization increase is 2.75%. The early retirement incentives (ERI) are amortized over either fourteen (14) years or thirteen (13) years. The schedule's length cannot exceed twenty years (fully funded by 2028) and the amortization increase cannot exceed 4.5% per year. These limits are contained in Chapter 32 of the Massachusetts General Laws (MGL).

The contribution amount for Fiscal 2009 is \$7,220,223 that is \$202,105 less than the anticipated contribution amount from the prior funding schedule.

The actuarial results for the Governmental Accounting Standards Board Statement 25 disclosure do not include effect of ongoing adoption by the Town of Sections 90A, C, and D of Chapter 32 of the MGL. We have recommended to the Retirement Board that a supplemental actuarial valuation be performed that would include these provisions.

The Arlington Retirement Board conducted the last actuarial valuation effective January 1, 2006. This satisfies the guidelines promulgated by PERAC and GASB that recommend valuations be conducted at a minimum every two years.

We pleased to present the results of this valuation. If the Retirement Board has any questions on the content of this report, we would be glad to respond.

Respectfully submitted,
STONE CONSULTING, INC.
Actuaries for the Plan

Lawrence B. Stone
Member, American Academy of Actuaries



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ARLINGTON RETIREMENT SYSTEM

INTRODUCTION

This report presents the results of the actuarial valuation of the Arlington Retirement System. The valuation was performed at the request of the Retirement Board as of January 1, 2007 for the purpose of determining the contribution requirements for Fiscal Year 2009 and beyond. The contribution requirements are based on:

- The financial condition of the system as of December 31, 2006
- The benefit provisions of M.G.L. Chapter 32;
- The demographics of members in the system (i.e., active and inactive participants, retirees and beneficiaries as of January 1, 2007);
- Economic assumptions regarding salary increases and investment earnings; and
- Other actuarial assumptions (i.e., terminations, retirement, death, etc.)

JANUARY 1, 2007 VALUATION SUMMARY

	January 1, 2007	January 1, 2006	Change
Contribution Fiscal 2009	\$7,220,233	\$7,422,337	(\$202,105)
Funding Schedule Length*	11 years	12 years	-1 years
Amortization Increase*	2.75%	2.75%	0.00%
Funding Ratio	73%	69%	+ 4%
Interest Rate Assumption	7.75%	7.75%	0.00%
Salary Increase Rate Assumption	4.75%	4.75%	0.00%

- The Fiscal Year 2009 contribution is \$202,105 less than the planned 2009 contribution based on the prior actuarial valuation. The System experienced a \$9.5 million net actuarial asset gain from calendar years 2004, 2005 and 2006. Stone Consulting, with agreement from the Retirement Board, values assets using an asset smoothing technique. In this approach, asset gains and losses are recognized over a four-year period. The purpose of this approach is



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to avoid wide swings in asset value from one year to the next. The System experienced an \$8.1 million actuarial asset gain for Calendar 2006; however, due to asset smoothing, only 25% of the gain was recognized this year, with the remaining gain to be phased in over the course of the next three-year period.

The System experienced a 13.2% return on the actuarial value of assets versus our assumption of a 7.75% return. The market value of assets experienced a return of 14.2%. The System's asset portfolio, effective December 31, 2006 was 72% equities and 28% fixed income and short-term investments. The interest rate assumption was maintained at 7.75% to reflect anticipated market performance.

- We have kept the salary increase rate at 4.75%, consistent with the 2006 actuarial valuation. Total compensation changed by 3.0% over the prior valuation; however average annual compensation (compensation divided by number of active members) changed by -1.4%. While the number of active and retired members increased, the age and service of active members changed, indicating that the Town has increased its workforce with younger employees, with lower years of service and at lower compensation levels.
- The funding level of the Arlington Retirement System is 73%, (76% using market value of assets), compared to 69% for the January 1, 2006 actuarial valuation. Chapter 68 requires a minimum funding ratio of 65% along with additional criteria in order to avoid being labeled an "under performing system". If you are considered an "under performing system" the system assets are required to be transferred to PRIT. The actuarial assumptions used to calculate the funding ratio are relatively conservative to many other Massachusetts retirement systems. The system is likely to remain over the 65% funding ratio level unless the market has a sustained downturn or there are significant changes to benefit provisions. The funding level is estimated to be in the second quartile of Massachusetts' Contributory Retirement Systems.

The schedule length is eleven (11) years. The schedule's length is nine years less than the maximum permitted, under Chapter 32 of the Massachusetts General Laws (2028). The amortization percentage stayed the same as the prior valuation, while maintaining a FY2009



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contribution level consistent with the prior valuation. The maximum amortization permitted under Chapter 32 is 4.5%. There are three small early retirement incentive bases that are being amortized over fourteen (14) years or thirteen (13) years with a 4.0% amortization increase.

- All non-economic assumptions are consistent with the January 1, 2006 actuarial valuation.
- The actuarial results do not include the effect of Section 90A, C, and D as this information was not provided to the actuary. For Governmental Accounting Standard Board (GASB) Statements 25 and 27, we believe that it would be appropriate to reflect the effects of Section 90A, C, and D. The continued adoption of these sections on a regular basis creates a “substantive plan” provision as enunciated in the GASB statements.



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JANUARY 1, 2007 ACTUARIAL VALUATION RESULTS

	January 1, 2007	January 1, 2006	Percentage Change
Funding			
• Contribution for Fiscal 2009	\$7,220,233		
• Contribution for Fiscal 2009 based on current schedule		\$7,422,337	-3%
Members *			
• <i>Actives</i>			
a. Number	712	681	4.6%
b. Annual Compensation	\$27,140,010	\$26,338,221	3.0%
c. Average Annual Compensation	\$38,118	\$38,676	-1.4%
d. Average Attained Age	47.8	48.3	-1.0%
e. Average Past Service	11.30	11.7	-3.4%
• <i>Retired, Disabled and Beneficiaries</i>			
a. Number	619	613	1.0%
b. Total Benefits*	\$12,448,153	11,871,971	4.9%
c. Average Benefits*	\$ 20,110	\$19,367	4.9%
d. Average Age	73.5	73.4	0.1%
• <i>Inactives</i>			
a. Number	126	137	-8.0%
Normal Cost			
a. Total Normal Cost as of January 1, 2007	\$3,432,759	\$3,336,604	2.9%
b. Less Expected Members' Contributions	<u>2,271,494</u>	<u>2,179,542</u>	4.2%
c. Normal Cost to be funded by the Municipality	\$1,161,265	\$1,157,062	0.4%
d. Adjustment to July 1, 2008	83,715	83,412	0.4%
e. Administrative Expense Assumption	<u>318,106</u>	<u>305,462</u>	4.1%
f. Normal Cost Adjusted to July 1, 2008	\$1,563,086	\$1,545,936	1.1%

*Excluding State reimbursed COLA



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SUMMARY OF JANUARY 1, 2007 VALUATION (Continued)

	January 1, 2007	January 1, 2006	Percentage Change
Actuarial Accrued Liability as of January 1, 2007			
a. Active Members	\$76,198,792	\$73,686,822	3.4%
b. Inactive Members	777,671	627,017	24.0%
c. Retired Members and Beneficiaries	<u>109,092,382</u>	<u>104,340,806</u>	4.6%
d. Total	\$186,068,845	\$178,654,645	4.2%
Unfunded Actuarial Accrued Liability			
a. Actuarial Accrued Liability as of January 1, 2007	\$186,068,845	\$178,654,645	4.2%
b. Less Actuarial Value of Assets as of January 1, 2007	<u>136,510,388</u>	<u>123,490,283</u>	10.5%
c. Unfunded Actuarial Accrued Liability as of January 1, 2007	\$49,558,457	\$Arlington	Arlington
d. Adjustment to July 1, 2008	<u>\$ 230,113</u>	<u>\$1,170,905</u>	
e. Unfunded Actuarial Accrued Liability as of July 1, 2008	\$49,788,570	\$56,335,267	



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DEMOGRAPHIC INFORMATION

Members	January 1, 2007	Percentage Change
• Actives		
a. Number	712	4.6%
b. Annual Compensation	\$27,140,010	3.0%
c. Average Annual Compensation	\$38,118	-1.4%
d. Average Attained Age	47.8	-1.0%
e. Average Past Service	11.30	-3.4%
• Retired, Disabled and Beneficiaries		
a. Number	619	1.0%
b. Total Annual Retirement Allowance excluding State-reimbursed COLA	\$12,448,153	4.9%
• Inactives		
a. Number	126	-8.0%

- The data was supplied by the Arlington Retirement Board. The data was checked under broad parameters of reasonableness. With the assistance of the staff of the Arlington Retirement Board, we were able to develop a database sufficient for valuation purposes.
- Payroll changed by 3.0% over the course of the past year. Average annual compensation changed by -1.4% over the same time period.
- The salary increase assumption includes general wage adjustments, step increases, and promotional increases. While the one-year average annual compensation growth was less than anticipated, we maintained the salary increase assumption at 4.75% as it is anticipated that average annual compensation and annual compensation increases in the future will be more consistent.



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HISTORY OF ACTIVE PARTICIPANTS

Valuation Year	Number	Average Age	Average Past Service	Average Ann'l Compensation
2007	712	47.8	11.30	\$38,118
2006	681	48.3	11.7	\$38,676
2005	664	48.4	11.6	\$38,115
2004	683	48.1	11.5	\$35,116
2003	683	48.2	11.3	\$34,490
2002	733	48.5	11.5	\$33,119

- Employee age and service has maintained relatively consistent over the course of the past five years. Average annual compensation has grown by 15.1% over the same time period. The statistics show that Arlington's employee population has grown during 2005 and 2006 and is back to 2003 levels and approaching the highest staffing level reported in 2002.

The charts on the following pages summarize demographic information regarding active and retiree members.

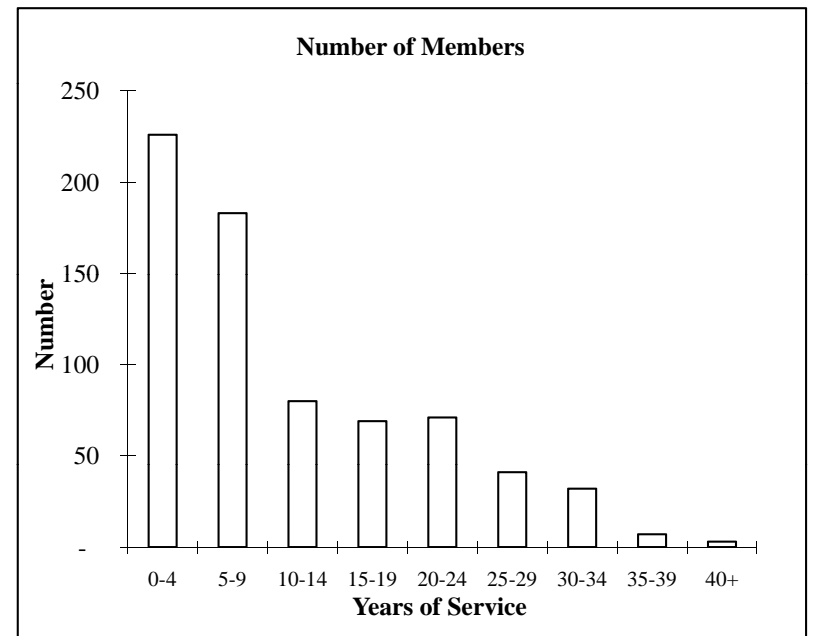
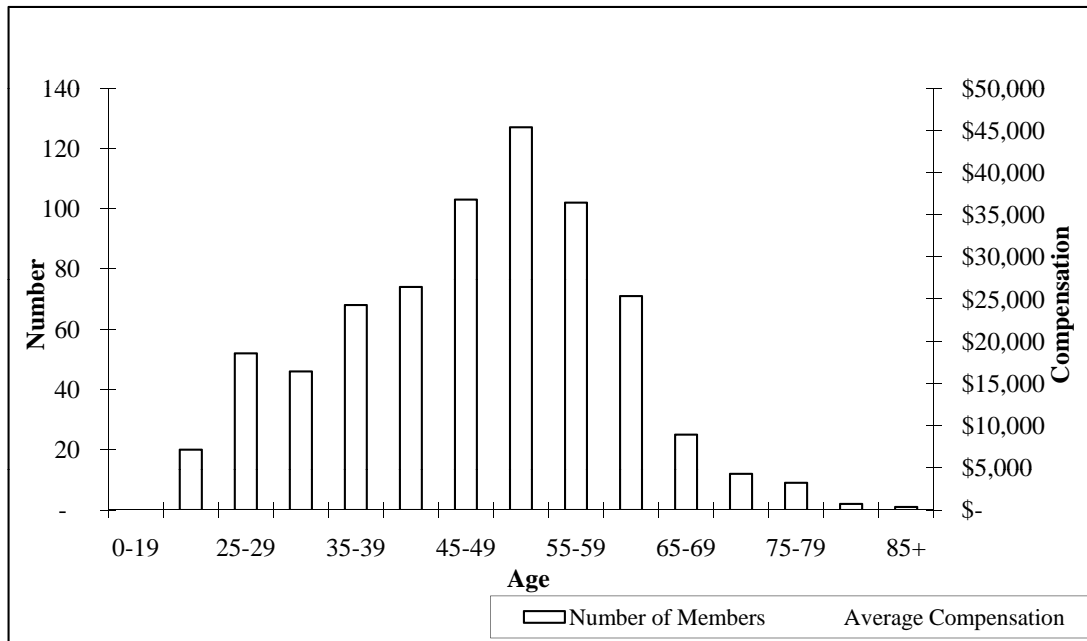


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Distribution of Plan Members as of January 1, 2007

Active Members

AGE	0-4 Years	5-9 Years	10-14 Years	15-19 Years	20-24 Years	25-29 Years	30-34 Years	35-39 Years	40 + Years	Total	Total Compensation	Average Compensation
0-19	-	-	-	-	-	-	-	-	-	-	\$ -	\$ -
20-24	20	-	-	-	-	-	-	-	-	20	371,209	18,560
25-29	48	4	-	-	-	-	-	-	-	52	1,212,217	23,312
30-34	17	29	-	-	-	-	-	-	-	46	1,831,351	39,812
35-39	22	23	17	6	-	-	-	-	-	68	3,021,537	44,434
40-44	27	19	15	7	6	-	-	-	-	74	2,901,487	39,209
45-49	33	18	15	19	16	2	-	-	-	103	4,086,627	39,676
50-54	32	37	13	9	18	14	4	-	-	127	5,245,763	41,305
55-59	15	26	5	11	10	14	20	1	-	102	4,260,984	41,774
60-64	11	15	7	8	12	9	4	5	-	71	3,000,257	42,257
65-69	1	7	7	5	3	1	1	-	-	25	618,672	24,747
70-74	-	4	-	3	3	1	1	-	-	12	359,579	29,965
75-79	-	1	1	1	2	-	2	-	2	9	213,080	23,676
80-84	-	-	-	-	-	-	-	1	1	2	12,717	6,359
85+	-	-	-	-	1	-	-	-	-	1	4,532	4,532
TOTAL	226	183	80	69	71	41	32	7	3	712	\$ 27,140,010	\$ 38,118



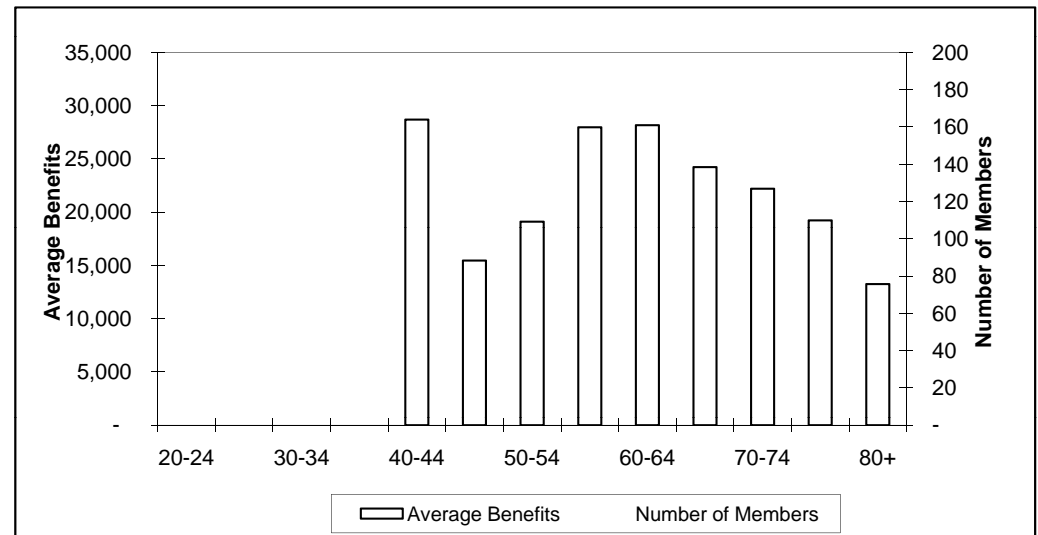


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Distribution of Plan Members as of January 1, 2007
Retired Members

<u>Disabled Member</u>			
Age	Number	Average Benefit	Total Benefit
20-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	2	29,889	59,779
45-49	3	18,474	55,422
50-54	3	22,969	68,907
55-59	15	26,528	397,923
60-64	17	29,675	504,474
65-69	13	27,196	353,550
70-74	16	28,845	461,527
75-79	9	25,991	233,918
80+	13	21,914	284,882
TOTAL	91	\$ 26,598	\$ 2,420,382

<u>Retired Members and Beneficiaries</u>			
Age	Number	Average Benefit	Total Benefit
20-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	1	26,277	26,277
45-49	3	12,442	37,326
50-54	6	17,174	103,042
55-59	18	29,179	525,224
60-64	49	27,638	1,354,265
65-69	81	23,762	1,924,737
70-74	93	21,057	1,958,272
75-79	101	18,617	1,880,352
80+	176	12,604	2,218,276
TOTAL	528	\$ 18,992	\$ 10,027,771

<u>Total</u>			
Age	Number	Average Benefit	Total Benefit
20-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	3	28,685	86,056
45-49	6	15,458	92,748
50-54	9	19,105	171,949
55-59	33	27,974	923,147
60-64	66	28,163	1,858,738
65-69	94	24,237	2,278,287
70-74	109	22,200	2,419,799
75-79	110	19,221	2,114,270
80+	189	13,244	2,503,159
TOTAL	619	\$ 20,110	\$ 12,448,153



Benefits shown are net of State reimbursed COLA.



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VALUATION METHODOLOGY

Stone Consulting, Inc. used the Entry Age Normal actuarial funding method in this actuarial valuation. The use of the Entry Age Normal actuarial funding method is consistent with the requirements of Chapter 32 of the Massachusetts General Laws.

NORMAL COST

		January 1, 2007	% of Payroll*
Gross Normal Cost (GNC)	\$	3,432,759	12.6%
Employees Contribution		<u>2,271,494</u>	<u>8.4%</u>
Net Normal Cost (NNC)	\$	1,161,265	4.3%
Adjusted to Beginning of Fiscal Year 2009	\$	83,715	
Administrative Expense	\$	<u>318,106</u>	1.2%
Adjusted Net Normal Cost With Admin. Expense	\$	1,563,086	

*Payroll paid in 2006 for employees as of January 1, 2007 is \$27,140,010. Payroll for new hires in 2006 was annualized.

- The gross normal cost (GNC) is the “price” of benefits accruing in the current year if the assumptions underlying the normal cost were realized.
- An individual normal cost represents that part of the cost of a member’s future benefits that are assigned to the current year as if the costs are to remain level as a percentage of the member’s pay. Benefits payable under all circumstances (i.e., retirement, death, disability, and terminations) are included in this calculation.
- Anticipated employee contributions to be made during the year are subtracted from the GNC to determine employer normal cost, or net normal cost (NNC).
- Administrative expenses added to the NNC. The administrative expense does not include investment manager and custodial fees. These fees are considered part of the interest rate assumption that is net of fees.



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ACTUARIAL ACCRUED LIABILITY AND FUNDED STATUS

		January 1, 2007	Percentage Change
Active Actuarial Accrued Liability		\$ 76,198,792	3.4%
Superannuation	\$ 65,761,636		
Death	\$ 1,952,884		
Disability	\$ 6,588,661		
Termination	\$ 1,895,611		
Retiree, Inactive, Survivor and Beneficiary Actuarial Accrued Liability		<u>109,870,053</u>	4.7%
Retirees and Beneficiaries	\$ 86,682,525		
Disabled	\$ 22,409,857		
Inactive	\$ 777,671		
Total Actuarial Accrued Liability (AAL)		\$ <u>186,068,845</u>	4.2%
Actuarial Value of Assets (AVA)		\$ <u>136,510,388</u>	10.5%
Unfunded Actuarial Accrued Liability		\$ 49,558,457	Arlington
Funded Ratio (AVA / AAL)			
2007 (7.75% interest rate):		73%	
2006 (7.75% interest rate):		69%	

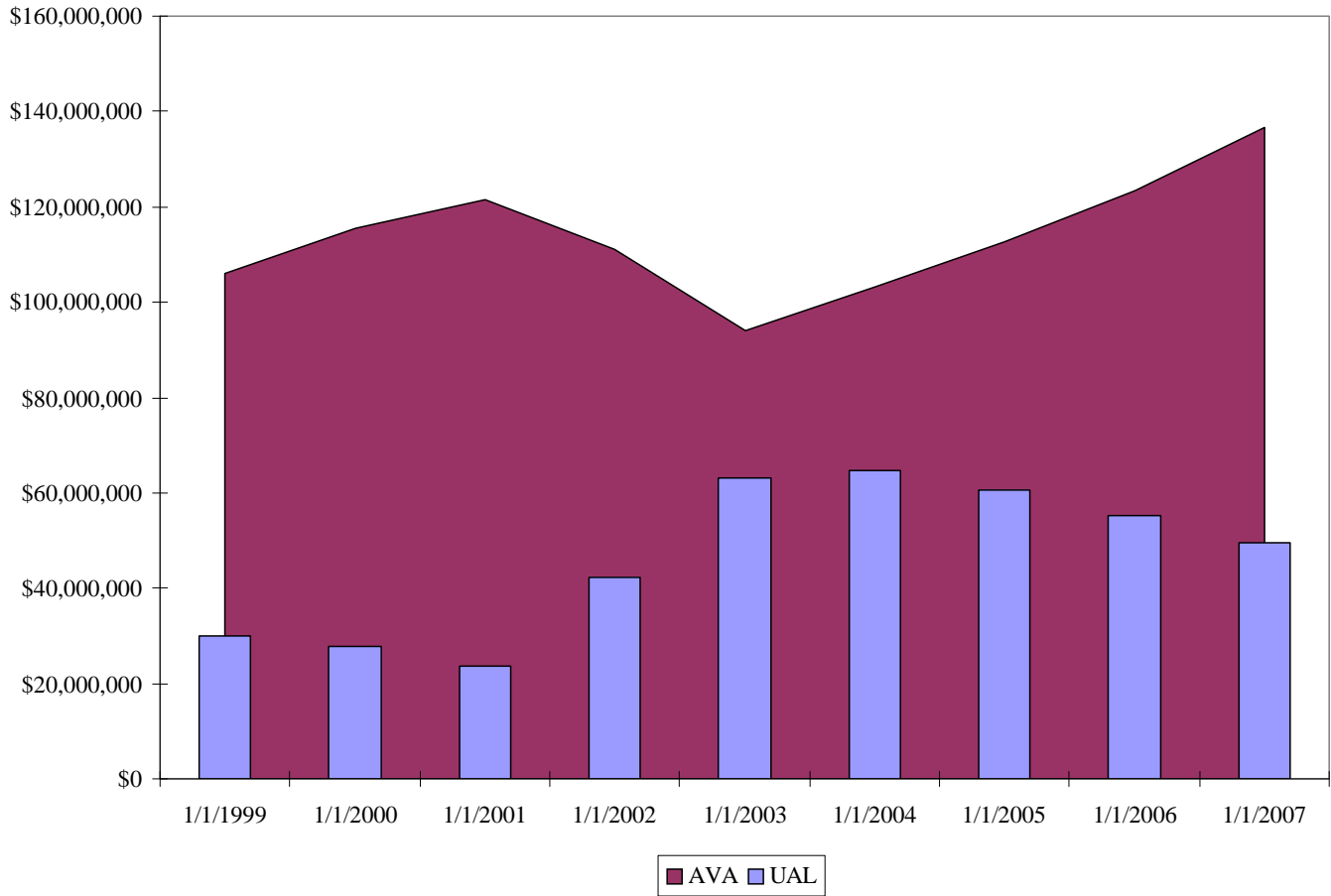
- Actuarial Accrued Liability (AAL) is the “price” of benefits attributable to benefits earned in past years, or in other words, represents today’s value of all benefits earned by active and inactive members.
- The total AAL is \$186,068,845. This along with an actuarial value of assets of \$136,510,388 produces a funded status of 73%. This compares to a funded status of 69% for the 2006 valuation.

The chart on the following page is a history of the unfunded actuarial accrued liability (UAL) and the valuation assets (AVA) over the course of the past nine actuarial valuations.



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HISTORY OF ACTUARIAL VALUATION OF ASSETS (AVA) AND UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAL)





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DEVELOPMENT OF FUNDING SCHEDULE

Net Employer Normal Cost for Fiscal 2009	\$	1,563,086
Amortization	\$	<u>5,657,147</u>
Total Appropriation required for Fiscal 2009	\$	7,220,233

- The funding schedule is composed of the normal cost, and the amortization of the actuarial accrued unfunded liability, other than the liability associated with the early retirement incentive, and is adjusted by the administrative expense assumption. The contribution is assumed to be made at the beginning of the Fiscal Year (July 1).
- The contribution amount for Fiscal 2009 is \$7,220,233. The funding schedule is presented on page 14. The schedule's length is eleven (11) years (for the fresh start base) which is one year less than the January 1, 2006 valuation schedule's length. The maximum funding schedule length allowed by Chapter 32 of the Massachusetts General Laws is to 2028.
- In developing the funding schedule, we used a fresh start approach in which the unfunded actuarial accrued liability is reamortized instead of maintaining the existing amortization amount and separately amortizing the actuarial gain or loss. The use of a fresh-start approach results in a funding schedule in which the changes in contribution amounts from year to year are more consistent. The amortization percentage stayed the same as the prior valuation, 2.75%. The maximum amortization increase allowed under Chapter 32 is 4.5%.



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FUNDING SCHEDULE

Fiscal Year	Normal Cost	Unfunded Liability	Funding Amortization of UAL	Schedule Contribution
2009	1,563,086	49,788,570	5,657,147	7,220,233
2010	1,637,333	47,551,609	5,813,604	7,450,937
2011	1,715,106	44,972,700	5,974,400	7,689,506
2012	1,796,573	42,020,668	6,139,654	7,936,228
2013	1,881,911	38,661,792	6,309,492	8,191,402
2014	1,971,301	34,859,604	6,484,039	8,455,341
2015	2,064,938	30,574,671	6,663,428	8,728,367
2016	2,163,023	25,764,364	6,847,794	9,010,817
2017	2,265,766	20,382,604	7,037,274	9,303,041
2018	2,373,390	14,379,592	7,232,012	9,605,402
2019	2,486,126	7,701,518	7,432,154	9,918,280
2020	2,604,217	290,240	109,131	2,713,349
2021	2,727,918	195,144	113,497	2,841,414
2022	2,857,494	87,975	87,975	2,945,469
2023	2,993,225	-	-	2,993,225

Amortization of Unfunded Liability as of July 1, 2008

Year	Type	Original Amort. Amount	Percentage Increasing	Original # of Years	Current Amort. Amount	Years Remaining
2004	ERI - Town	39,285	4.00%	19	47,796	14
2004	ERI - Housing	4,142	4.00%	19	5,039	14
2006	ERI2003 - Town	16,050	4.00%	16	18,054	13
2009	Fresh Start	5,586,257	2.75%	11	5,586,257	11

Notes on Amortization of Unfunded Liability

Year is the year the amortization base was established.

Type is the reason for the creation of the base. Examples are Gain/(Loss) or Fresh Start.

Original Amortization Amount is the annual amortization amount when the base was established.

Percentage Increasing is the percentage that the Original Amortization Amount increases per year.

Original # of Years is the number of years over which the base is being amortized.

Current Amortization Amount is the amortization payment amount for this year.

Years Remaining is the number of years left to amortize the base.



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Allocation of Contribution

PERAC notified the Retirement Board of the allocation of the Fiscal 2008 contribution. We have used the same allocation percentages to estimate the Fiscal 2009 contribution to be as follows:

	Contribution without ERI	ERI	Contribution	Compensation Percentage
Town	\$6,856,909	\$ 65,850	\$6,922,759	95.88%
Housing Authority	292,435	5,039	297,474	4.12%
Total	\$7,149,344	\$70,889	\$7,220,233	100.0%

We have estimated the allocation of the Fiscal 2009 contribution for the two governmental units of the Arlington Retirement System. This calculation was made using information from the 2007 Appropriation Data Questionnaire that the Retirement Board submitted to PERAC and the January 1, 2007 actuarial valuation results.



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ASSUMPTIONS AND METHODOLOGY SUMMARY

The principal actuarial assumptions used in this valuation are the same as the assumptions used in the previous valuation, except where noted, and are summarized in the following table:

<u>Assumption</u>	<u>January 1, 2007 Valuation</u>
Interest Rate	7.75% (same as prior valuation)
Salary Increase	4.75% (same as prior valuation)
COLA	3% of \$12,000
COLA Frequency	Granted every year
Mortality	RP-2000 table. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2000 table, ages set forward 7 years.
Overall Disability	<u>Groups 1 and 2</u> 55% ordinary disability 45% accidental disability <u>Group 4</u> 10% ordinary disability 90% accidental disability
Retirement Rates	<u>Groups 1 and 2</u> Ages 55 - 65 <u>Group 4</u> Ages 50 - 65
Administrative Expense	\$318,106 budget estimated for FY 2009 provided by Arlington Retirement Board.



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ASSETS

a.	Cash	\$	333,440.99
b.	Short Term Investments		746,502.36
c.	Fixed Income		31,115,124.48
d.	Equities		13,677,294.33
e.	Pooled Short Term Funds		69,550.30
f.	Pooled Domestic Equity Funds		56,242,418.85
g.	Pooled International Equity Funds		30,004,643.27
h.	Pooled Domestic Fixed Income Funds		7,163,503.74
i.	Pooled Alternative Investments		2,562,081.53
<hr/>			
j.	Sub-Total:	\$	141,914,559.85
k.	Interest Due and Accrued	\$	324,311.23
l.	Accounts Receivable		107.15
m.	Accounts Payable		.00
n.	Sub-Total:	\$	324,418.38
<hr/>			
o.	Market Value of Assets [(j) + (n)]	\$	142,238,978.23

- We were furnished with the System's annual report by the Board. The market value of assets as of December 31, 2006 (adjusted for interest due and accrued, payables and receivables) is \$142,238,978.23.
- The asset allocation is approximately 1% cash, receivables, payables and short-term investments, 27% fixed income, 10% equities, 39% Pooled Domestic Equity Funds, 21% Pooled International Equity Funds and 2% Pooled Alternative Investments.
- Historically, 10 to 11% has been the expected long-term rate of return for equities, and 6 to 7% has been the expected long-term rate of return for fixed income securities. Many economists and investment professionals are projecting lower returns of 6.25 to 9.00% for equities and 3.65 to 6.00% for fixed income securities. In light of these projections, as well as historical investment returns, the 7.75% interest rate assumption is within the reasonable assumption range. We encourage close monitoring for changes in investment performance against expectations.



ARLINGTON RETIREMENT SYSTEM

CALCULATION OF VALUATION ASSETS as of January 1, 2007 4-Year Phase-In of Asset Gains and Losses

1. Market value of assets including receivable/payable as of 01/01/2007				\$142,238,978
2. Phase-in of asset gains and losses				
	Plan Year (1)	Original Amount (2)	Percent Unrecognized (3)	Amount Unrecognized (2) x (3)
a. 2006		\$8,110,916	75%	\$6,083,187
b. 2005		(\$2,850,469)	50%	(\$1,425,234)
c. 2004		\$4,282,549	25%	\$1,070,637
d. Total				\$5,728,590
3. Valuation assets without corridor as of 01/01/2007 (1. - 2.d.)				\$136,510,388
4. Corridor Check				
a. 90% of Market Value				\$128,015,080
b. 110% of Market Value				\$156,462,876
5. Valuation assets with corridor as of 01/01/2007 3. within Corridor				\$136,510,388
6. Calculation of return on valuation assets				
a. Valuation assets as of 01/01/2006				123,490,283
b. ER contribs + EE contribs - Ben Pymts - Expenses				(3,134,168)
c. Actual return on valuation assets 5. - (6.a. + 6.b.)				\$16,154,273
d. Weighted value of valuation assets				121,923,199
e. Return on valuation assets 6.c. / 6.d.				13.25%



ARLINGTON RETIREMENT SYSTEM

DISCLOSURE INFORMATION UNDER GASB STATEMENT 25

Schedules of Funding Progress

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded AAL (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a % of Covered Payroll (B-A)/C
1/1/2007	\$136,510	\$186,069	\$49,559	73%	\$27,140	183%
1/1/2006	\$123,490	\$178,655	\$55,164	69%	\$26,338	145%
1/1/2005	\$112,721	\$173,251	\$60,530	65%	\$25,308	239%
1/1/2004	\$103,154	\$167,816	\$64,662	61%	\$23,948	270%
1/1/2003	\$ 94,182	\$157,330	\$63,148	60%	\$23,557	268%

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/2007
Actuarial cost method	Entry Age Normal
Amortization method	Approximate level percent of payroll Closed
Remaining amortization period	11 years for the fresh start retirement benefits schedule; 13 years for the 2003 ERI; and 14 years for the 2004 ERI's.
Asset valuation method	Market value adjusted by accounts payable and receivables adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. Market value of assets is \$142,238,978.23.
Actuarial assumptions:	
Investment Rate of Return	7.75% per year
Projected Salary Increases	4.75% per year



ARLINGTON RETIREMENT SYSTEM

PERAC INFORMATION DISCLOSURE

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2007

The normal cost for employees on that date was: \$2,271,494 8.4% of payroll

The normal cost for the employer was: \$1,161,265 4.3% of payroll

The actuarial liability for active members was: \$76,198,792

The actuarial liability for retired members was (includes inactives): \$109,870,053

Total actuarial accrued liability: \$186,068,845

System assets as of that date: 136,510,388

Unfunded actuarial accrued liability: \$49,558,457

The ratio of system's assets to total actuarial liability was: 73%

As of that date the total covered employee payroll was: \$27,140,010

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:

Rate of Salary Increase: ~~7.75%~~ ^{4.75%} per annum

SCHEDULE OF FUNDING PROGRESS (Dollars in \$000's)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2007	\$136,510	\$186,069	\$49,559	73%	\$27,140	183%
1/1//2006	\$123,490	\$178,655	\$55,164	69%	\$26,338	145%
1/1/2005	\$112,721	\$173,251	\$60,530	65%	\$25,308	239%
1/1/2004	\$103,154	\$167,816	\$64,662	61%	\$23,948	270%
1/1/2003	\$ 94,182	\$157,330	\$63,148	60%	\$23,557	268%



ARLINGTON RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

- 1. Actuarial Cost Method**

The Entry Age Normal Actuarial Cost Method has been used in this valuation. Under this method, the normal cost is the amount calculated as the level percentage of compensation necessary to fully fund the prospective benefits from each member's entry age to retirement age.

The actuarial accrued liability represents the theoretical accumulation of all prior years' normal costs for the plan members as if the program had always been in effect. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over plan assets.
- 2. Asset Valuation Method**

Market value of assets (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return over a four-year rolling period starting with the 2003 calendar year investment return. The phase-in is 25% for year one, 50% for year two, 75% for year three and 100% for year four. The actuarial value of assets may be no less than 90%, or more than 110% of the market value of assets plus payables and receivables.
- 3. Fiscal Year Adjustment**

The actuarial results are adjusted by the valuation interest rate and salary scale to the beginning of Fiscal Year 2009. The unfunded actuarial accrued liability is rolled forward with normal cost and further adjusted by anticipated contributions and interest.

Actuarial Assumptions

- 1. Investment Return**

7.75% per year net of investment expenses. (Same as the prior valuation)
- 2. Salary Increases**

4.75% per year. (Same as the prior valuation).



ARLINGTON RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

3. Withdrawal Prior to Retirement The rates shown at the following sample ages illustrate the withdrawal assumption.

<i>Age</i>	Rate of Withdrawal	
	<i>Group 1 and 2</i>	<i>Group 4</i>
20	37.51%	3.15%
25	28.23%	2.85%
30	17.35%	2.48%
35	10.07%	1.88%
40	7.21%	0.84%
45	5.68%	0.06%
50	4.57%	0.00%
55	0.00%	0.00%

4. Disability Prior to Retirement The rates shown at the following sample ages illustrate the assumption regarding the incidence of disability:

<i>Age</i>	Rate of Disability	
	<i>Group 1 and 2</i>	<i>Group 4</i>
20	0.03%	0.10%
25	0.04%	0.12%
30	0.06%	0.18%
35	0.08%	0.26%
40	0.12%	0.38%
45	0.18%	0.58%
50	0.31%	0.98%
55	0.50%	1.60%
60	0.61%	1.97%

Disability is assumed to be 55% ordinary and 45% accidental for Group 1 and 2 and 10% ordinary and 90% accidental for Group 4.



ARLINGTON RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

5. Rates of Retirement

The rates shown at the following ages illustrate the assumption regarding the incidence of retirement, once the member has achieved 10 years of service:

<i>Age</i>	Rates of Retirement	
	<i>Group 1 and 2</i>	<i>Group 4</i>
50	N/A	2%
51	N/A	2%
52	N/A	2%
53	N/A	2%
54	N/A	2%
55	10%	5%
56	3%	5%
57	3%	5%
58	3%	5%
59	5%	5%
60	5%	10%
61	5%	10%
62	10%	20%
63	10%	20%
64	10%	20%
65	100%	100%

6. Mortality

The RP-2000 mortality table for healthy annuitants (sex-distinct).

7. Disabled Life Mortality

The RP-2000 mortality table for healthy annuitants (sex-distinct) set-forward by 7 years. Death is assumed to be due to the same cause as the disability 40% of the time.

8. Regular Interest Rate Credited to Annuity Savings Account

2% per year.



ARLINGTON RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

9. Family Composition Members assumed married with 2 dependent children – one male and one female both age 15; age difference between member and spouse assumed to be 3 years (the male being the older).
10. Cost-of-Living Increases A 3% COLA on the first \$12,000 of a member's retirement allowance is assumed to be granted every year.
11. Administrative Expenses Estimated budgeted amount of \$318,106 for the Fiscal Year 2009 excluding investment management fees and custodial fee is added to the Normal Cost.
12. Step Increases Step increases are assumed to be part of the salary increase assumption.
13. Credited Service Service between date of hire and date of membership is assumed to be purchased by all members.
14. Salary Adjustment Active members who were employed prior to the dates listed below will be provided a lump-sum payment of a certain percentage of their final 3-year average regular compensation upon termination. This was to recognize that annual increases were not consistently provided during their term of employment. The Retirement Board deems the lump-sum payment regular compensation. For valuation purposes the following percentage increases were used:
- | Employed | % Increase |
|----------------------------------|------------|
| Prior to July 1, 1984 | 7.1% |
| July 1, 1984 – December 31, 1992 | 2.0% |
15. Contribution Timing Contributions are assumed to be made at the beginning of the fiscal year (July 1).
16. Valuation Date January 1, 2007.



ARLINGTON RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS

1. Participant

Participation is mandatory for all full-time employees whose employment commences before age 65. There are three classes of members in the retirement system:

Group 1: general employees

Group 2: employees in specified hazardous occupations (e.g., electricians)

Group 4: police and firefighters

2. Member Contributions

Member contributions vary depending upon date hired as follows:

Date of Hire	Member Contribution Rate
Prior to 1975	5% of Pay
1975 – 1983	7% of Pay
1984 – June 30, 1996	8% of Pay
After June 30, 1996	9% of Pay

Members hired after 1978 contribute an additional 2% of pay over \$30,000.

3. Pay
 - a. Pay

Gross regular compensation excluding bonuses, overtime, severance pay, unused sick pay, and other similar compensation.
 - b. Average Pay

The average of pay during the 3 consecutive years that produce the highest average or, if greater, during the last three years (whether or not consecutive) preceding retirement.

4. Credited Service

Period during which an employee contributes to the retirement system plus certain periods of military service and “purchased” service.



ARLINGTON RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

5. Service Retirement

- a. Eligibility Completion of 20 years of credited service or attainment of age 55 and completion of 10 years of credited service. If hired prior to 1978 or a member of group 4, attainment of age 55.
- b. Retirement Allowance Determined as the product of the member's benefit percentage, average pay and credited service, where the benefit percentage is shown below (maximum allowance of 80% of average pay):

Benefit Percentage	Group 1	Group 2	Group 4
2.5%	65+	60+	55+
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	N/A	49
1.8	58	N/A	48
1.7	57	N/A	47
1.6	56	N/A	46
1.5	55	N/A	45

In addition, veterans receive an additional \$15 per year for each year of credited service up to 20 years.

6. Deferred Vested Retirement

- a. Eligibility Completion of 10 years of credited service (for elected and appointed members, 6 years in the event of involuntary termination).



ARLINGTON RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

6. Deferred Vested Retirement *(continued)*
- b. Retirement Allowance Determined in the same manner as 5b. with the benefit payable at age 55, unless deferred until later at the member's option.
- Member contributions with interest may be withdrawn after separation from service. If contributions are withdrawn, eligibility for retirement benefits is forfeited. Members hired before 1984 receive full interest on contributions that are withdrawn; otherwise, one half the credited interest is provided for members who withdraw after 5 but before 10 years of credited service and no interest is provided for withdrawals before 5 years of credited service.
7. Ordinary Disability Retirement
- a. Eligibility Non-job related disability after completion of 10 years of credited service.
- b. Retirement Allowance Determined in the same manner as 5b. with the benefit payable immediately. Veterans receive 50% of pay (during final year) plus an annuity based on accumulated member contributions with interest.
8. Accidental Disability Retirement
- a. Eligibility Disabled as a result of an accident in the performance of duties. No age or service requirement.
- b. Retirement Allowance 72% of pay plus an annuity based on accumulated member contributions with interest. Also, a dependent's allowance per year for each child. Total allowance not to exceed 100% of pay (75% for members hired after 1987).



ARLINGTON RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

9. Non-Occupational Death
- a. Eligibility Dies while in active service, but not due to occupational injury. 2 years of service.
 - b. Retirement Allowance Benefit as if Option C had been elected (see below). Minimum monthly benefits provided as follows: spouse - \$250, first child - \$120, each additional child - \$90.
10. Occupational Death
- a. Eligibility Dies as a result of an occupational injury.
 - b. Benefit Amount Same as 8b.
11. Cost-of-Living Increases
- An increase of up to 3% applied to the first \$12,000 of annual benefit. Funded by the Municipality from Fiscal Year 1999. Percentage increase is voted on each year by the Retirement Board. Cost-of-living increases granted during Fiscal Year 1982 through Fiscal 1998 are reimbursed by the Commonwealth.
12. Optional Forms of Payment
- a. Option A Allowance payable monthly for the life of the member.
 - b. Option B Allowance payable monthly for the life of the member with a guarantee of remaining member contributions with interest.
 - c. Option C Allowance payable monthly for the life of the member with 66-2/3% continuing to the member's beneficiary upon the member's death. If the beneficiary predeceases the member, the allowance amount "pops up" to the non-reduced amount.



ARLINGTON RETIREMENT SYSTEM

GLOSSARY OF TERMS

1. Present Value of Benefits Represents the dollar value today of all benefits expected to be earned by current members if all actuarial assumptions are exactly realized.
2. Actuarial Cost Method The procedure that is used to allocate the present value of benefits between the liability that is attributable to past service (Actuarial Accrued Liability) and that attributable to future service.
3. Actuarial Assumptions Estimates are made as to the occurrence of certain events that determine the level of benefits to be paid and how long they will be provided. The more important actuarial assumptions include the investment return on assets, salary increases and the rates of turnover, disability, retirement and mortality.
4. Actuarial Accrued Liability The portion of the Present Value of Benefits that is attributable to past service.
5. Normal Cost The portion of the Present Value of Benefits that is attributable to benefits to be earned in the coming year.
6. Actuarial Assets Market value of assets (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return over a four-year rolling period starting with the 2003 calendar year investment return. The phase-in is 25% for year one, 50% for year two, 75% for year three and 100% for year four. The actuarial value of assets may be no less than 90%, or more than 110% of the market value of assets plus payables and receivables.
7. Unfunded Actuarial Accrued Liability That portion of the Actuarial Accrued Liability not covered by System Assets.
8. PERAC Public Employee Retirement Administration Commission, a division of the State government which has regulatory authority over the administration of the retirement system.



ARLINGTON RETIREMENT SYSTEM

9. PRIT Pension Reserves Investment Trust Fund is the state controlled and administered fund for the investment of assets for members of the retirement system.
10. GASB Government Accounting Standards Board (issues guidance for disclosure of retirement system liabilities).