

# Berkshire County Contributory Retirement System Actuarial Valuation

**January 1, 2023**



**PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION**  
COMMONWEALTH OF MASSACHUSETTS



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# 1. INTRODUCTION & CERTIFICATION

This report presents the results of the actuarial valuation of the Berkshire County Contributory Retirement System. The valuation was performed as of January 1, 2023 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The actuarial assumptions used in this valuation are the same as those used in the January 1, 2021 valuation except the mortality assumption was modified to reflect a more current mortality improvement scale. Also, the COLA was increased from \$14,000 to \$16,000 as part of this valuation.

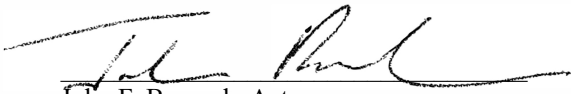
This valuation was based on member data as of December 31, 2022, which was supplied by the Retirement Board. Such tests as we deemed necessary were performed on the data to ensure accuracy. Asset information as of December 31, 2022 was provided in the Annual Statement for the Financial Condition as submitted to this office in accordance with G.L. c. 32, ss. 20(5)(h), 23(1) and 23(2)(e). Both the membership data and financial information were reviewed for reasonableness but were not audited by us.

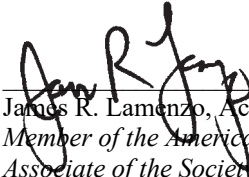
This report was prepared by PERAC for the exclusive use of the Berkshire County Retirement Board, its staff and its auditors. The report was performed to determine the funded status of the System and to determine the contribution requirements to ensure that System assets along with the contributions are sufficient to provide the prescribed benefits. Use of this report by other parties may not be appropriate and may result in mistaken conclusions because of the failure to understand applicable assumptions, methods or the inapplicability of the report for purposes other than those intended. PERAC should be asked to review any statement to be made on the basis of the results presented in this report. PERAC will accept no responsibility for any such statement made without its prior review.

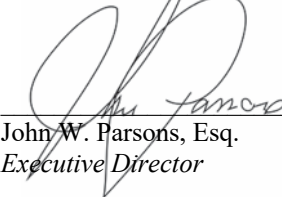
Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic and demographic assumptions, and increases or decreases expected as part of natural operation of the methodology used for these measurements such as additional contribution requirements based on the plan's funded status and changes in plan provisions or applicable law. As part of this valuation, we have not performed an analysis of the potential range of future measurements.

We, the undersigned actuaries, are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In our opinion, the actuarial assumptions used in this report are reasonable, are related to plan experience and expectations, and represent our best estimate of anticipated experience under the system. We believe this report represents an accurate appraisal of the actuarial status of the system performed in accordance with generally accepted actuarial principles and practices relating to pension plans.

Respectfully submitted,  
Public Employee Retirement Administration Commission

  
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January 17, 2024

## 2. EXECUTIVE SUMMARY

### A | COMPARISON WITH PRIOR VALUATION

The last full valuation was performed by PERAC as of January 1, 2021. The investment return assumption was maintained at 6.75% in this valuation. We maintained the base mortality assumption determined from our local system retiree mortality analysis completed in 2019 but updated the mortality improvement scale (see Part C). The COLA base was increased from \$14,000 to \$16,000 as part of this valuation. Other assumptions are based on our Local Experience Study Analysis issued in 2002 with a subsequent adjustment to the salary increase assumption. Below we have shown a comparison of the results between the two valuations.

	1/1/23	1/1/21	Increase/ (Decrease)	% Increase/ (Decrease)
Total Normal Cost	\$9,793,197	\$8,766,377	\$1,026,820	11.7%
Expected Employee Contributions	<u>5,033,682</u>	<u>4,583,409</u>	<u>\$450,273</u>	9.8%
Net Normal Cost	<u>\$4,759,515</u>	<u>\$4,182,968</u>	<u>\$576,547</u>	13.8%
Total Actuarial Liability	\$348,666,604	\$323,222,853	\$25,443,751	7.9%
Assets	<u>332,726,708</u>	<u>282,589,130</u>	<u>\$50,137,578</u>	17.7%
Unfunded Actuarial Liability	<u>\$15,939,896</u>	<u>\$40,633,723</u>	<u>(\$24,693,827)</u>	(60.8%)
Funded Ratio	95.4%	87.4%	8.0%	

Number of Active Employees	1,204	1,172	32	2.7%
Total Salary	\$56,391,267	\$51,363,313	\$5,027,954	9.8%
Average Salary	\$46,837	\$43,825	\$3,012	6.9%
Average Age	48.5	49.3	(0.8)	(1.6%)
Average Service	9.6	10.5	(0.9)	(8.6%)
Number of Retirees/Survivors	900	854	46	5.4%
Total Benefits*	\$18,546,746	\$16,768,384	\$1,778,362	10.6%
Average Benefits*	\$20,607	\$19,635	\$ 972	5.0%
Average Age	72.9	73.2	(0.3)	(0.4%)

*\*excluding State reimbursed COLA*

## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION

#### **Funded Status**

The unfunded actuarial liability (UAL) and funded ratio are measures of the plan's funded status. These measures reflect the plan's position as of January 1, 2023. We believe these measures, by themselves, are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions. However, we believe these measures, in conjunction with the plan's funding schedule shown on page 11, are appropriate for assessing the amount of future contributions.

The UAL in this valuation reflects the actuarial value of assets, a method that recognizes investment gains and losses over five years. As of January 1, 2023, the actuarial value of assets is 105.3% of the market value. On a market value basis, the UAL is \$32.5 million and the funded ratio is 90.7%.

#### **Plan Experience**

##### *Plan Liabilities*

The System experienced a gain on the actuarial liability of approximately \$7.4 million since the last valuation (the actuarial liability was less than expected). This gain is primarily due to salary increases for continuing active members increasing less than assumed as well as more retiree deaths than assumed over the past 2 years. This gain is determined before reflecting the assumption change discussed on the next few pages.

##### *Plan Assets*

The System previously adopted an asset smoothing methodology to determine the actuarial value of assets (AVA). As of January 1, 2023, the AVA is \$332.7 million compared with the market value of assets (MVA) of \$316.1 million. The AVA is 105.3% of the MVA. The rates of return on a market value basis in 2021 and 2022 were 20.2% and -10.9% respectively. The returns on an AVA basis were approximately 15.6% and 4.3% respectively. The recognition of a portion of prior deferred investment gains and losses contributed to an asset gain of approximately \$18.6 million over the 2-year period on an AVA basis.

##### *Total*

There was a total net gain of approximately \$26.0 million since the last valuation (\$7.4 million gain on actuarial liability plus \$18.6 million gain on the AVA).

## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION *(continued)*

#### Actuarial Assumptions

##### *Investment Return*

Early in 2023, NEPC, the Pension Reserves Investment Trust's (PRIT) investment consultant, provided figures for 30-year expected return projections using a building block approach, the target allocation and expected long-term returns by asset class. The expected annual return is 7.7% in this study (7.2% if we assume expenses of 50 basis points and the expected return reflects a gross return). This figure is 80 basis points greater than the figure from the 2022 study. Note that the 7.7% average expected return does not mean that the expected return each year will be 7.7%. In fact, over the shorter term (10 years) the average expected return is 7.0% (130 basis points greater than last year). Greater expected returns in later years determine NEPC's long-term projection. The NEPC projected returns are the first measure we use to determine a reasonable range for the long-term investment return assumption.

A comparison of recent expected return projections as well as historical PRIT returns is shown below.

	Expected Annual Return						
	2017	2018	2019	2020	2021	2022	2023
10-year expected return *	6.8%	6.6%	6.8%	6.2%	5.8%	5.7%	7.0%
30-year expected return	7.8%	7.7%	7.9%	7.3%	6.8%	6.9%	7.7%

\* In years prior to 2020, NEPC's short-term horizon was 5-7 years

Actual Returns as of December 31, 2022	
2022	-10.8%
5 years (2018-2022)	6.8%
10 years (2013-2022)	8.3%
20 years (2003-2022)	8.5%
38 years (1985-2022)	9.3%

Besides the NEPC analysis, we review the capital market assumptions (CMAs) of other investment consultants for comparison. We estimate the short-term and/or long-term expected returns using these capital market assumptions and PRIT's asset allocation. The results of these CMAs are generally consistent with NEPC. We also review the Horizon Actuarial Services Survey of Capital Market Assumptions. This study compares the assumptions of 40 different investment consultants including NEPC. The Horizon study used in our analysis was published in August 2022. Since it reflects 2022 capital market assumptions, there is a lag between the Horizon results and the NEPC study. The Horizon short-term (10 years) expected return increased by 25 basis points from 5.38% to 5.63% in this survey. The Horizon long-term (20 years) expected return increased by only 4 basis points from 6.25% to 6.29%. At first glance, the results of the Horizon survey indicate a potential bottoming of the long-term expected returns. It may be a one-year anomaly but is something we will monitor over the next few years.

In addition to the NEPC and other capital market analyses, NASRA periodically publishes a survey of investment return assumptions used by over 100 large public plans. The most recent study available at the time of our analysis was published in November 2022. In that study, the average investment return assumption was 6.93%, a decrease from the 7.04% figure published in January 2022. In an updated study as of March 2023, the average investment return assumption was still 6.93%. Although the NASRA study does not consider different asset allocations between the plans, it demonstrates the continuing reduction in this assumption.

## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION *(continued)*

As part of our analysis, we considered whether to recommend maintaining the 6.75% assumption adopted in 2021 or reducing the assumption further. We recommended maintaining this assumption as part of this valuation.

Despite the increase in NEPC's long-term expectations, we did not recommend increasing the assumption this year. This year's results could be an anomaly. We would want to see results like this year's results over the next few years before we consider increasing this assumption.

We could make a reasonable argument to reduce the assumption this year. NEPC is just one of many investment consultants. Past analyses have indicated that NEPC's expectations are in the middle of the pack when compared to the expectations of other investment consultants. Thus, using CMAs from the more conservative end of the spectrum would result in a reduction in the investment return assumption.

Over the past ten years, we have taken a measured approach regarding our recommendation of this assumption. We review this assumption annually, and generally we have not recommended a decrease in this assumption of more than 25 basis points between any two successive years. Until a few years ago, our assumption was between the NEPC short-term and long-term expectations. However, with the significant decreases in the NEPC expectations in 2020 and 2021, many of our recommendations for 2021 and 2022 ended up being greater than NEPC's long-term expectation (6.8% and 6.9% respectively). Because of our measured approach regarding this assumption, the assumption might exceed the NEPC long-term expectation for a limited period, but we expect it would return to being between the two expectations over time. With the increase in the NEPC expectations in 2023, most of our recommendations will be closer to the short-term expectation.

We generally prefer that this assumption be between the NEPC short and long-term expectations, but not exceed the NEPC long-term expectation for two reasons. First, although the assumption is a long-term assumption, we want to reflect the fact that over the short term, returns are expected to be lower. Second, we noted earlier that the 30-year expected return would be 7.2% if we assume expenses to be 50 basis points. Although actual PRIM returns are reported gross of expenses, our understanding is that NEPC considers the expectations to be net of expenses because their methodology models indexed funds with negligible fees and that active management has historically at least offset fees. However, the Actuarial Standards of Practice, which provide guidance in developing assumptions, note that anticipating superior performance may be unduly optimistic. We are inclined to be conservative in developing the investment return assumption, to reflect both short-term returns and investment expenses.

The system used an assumption of 6.75% in the January 1, 2021 actuarial valuation. We believe maintaining this assumption is reasonable as of January 1, 2023.



## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION *(continued)*

#### *Mortality*

We completed a local system retiree mortality analysis in 2019. As part of our analysis, we compared our experience to the public retirement plan mortality tables released in 2019 (the Pub-2010 Mortality Tables- which did not include Massachusetts public plans). We found that our experience was not consistent with these tables. Based on our findings, we adopted the RP-2014 Blue Collar table projected generationally with Scale MP-2018 and updated to Scale MP -2020 in our 2021 valuations. We continue to use this base table for our 2023 local system actuarial valuations. However, we are updating the mortality improvement scale to the more current MP-2021.

This modest change increased the normal cost by approximately \$12,000 and increased the actuarial accrued liability by approximately \$810,000.

#### **Chapter 176 Provisions**

Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, made a number of changes to the Chapter 32 pension law. There are several changes that will have the most impact on decreasing plan liabilities over the longer term. These include an increase in the normal retirement age by two years (for example, from age 65 to age 67 for Group 1 members), an increase in the age (early retirement) reduction factor for ages below the maximum age (from a 4.0% to a 6.0% annual reduction), and an increase in the period for determining a member's average annual compensation (from 3 years to 5 years). These changes are effective only for members hired after April 1, 2012.

As of January 1, 2023, there were 854 members hired after April 1, 2012. The normal cost is lower by approximately \$700,000 and the actuarial liability is lower by approximately \$5.6 million for these members compared to the figures under the prior provisions.

#### **COLA Base**

This valuation reflects a COLA base of \$16,000. The 2021 valuation reflected a \$14,000 base. This change increased the normal cost by approximately \$100,000 and the actuarial liability by approximately \$3.9 million

## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION *(continued)*

#### **Expenses**

We have generally included administrative expenses paid by the plan in the development of normal cost in our actuarial valuations. However, that is not the case with investment-related expenses. Historically, most local systems have used an investment return assumption that is net of investment related expenses. For a number of years, we have been reflecting a portion of investment related expenses in the normal cost. We used an expense assumption of \$1.5 million in this valuation, which reflects approximately \$1.0 million of investment related expenses. Over time, we expect the total administrative and investment expenses to be included in the normal cost. Alternatively, a lower investment return assumption can achieve a similar result.

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

A common prior assumption was that §3(8)(c) payments paid from a system were approximately equal to §3(8)(c) payments paid to a system. However, we have found for most local systems, this is not the case. For your system, there is net §3(8)(c) cash outflow during the year. In order to better reflect the actual cost to the System, we have once again included expected net §3(8)(c) payments in the funding schedule.

## 2. EXECUTIVE SUMMARY *(continued)*

### B | FUNDED STATUS AND PLAN EXPERIENCE SINCE PRIOR VALUATION *(continued)*

#### **Funding Schedule**

The funding schedule presented in this report was recently adopted by the Board. The FY24 payment was maintained from the prior schedule. The schedule amortizes the unfunded actuarial liability by having the total appropriation increase 7.0% in FY25. The system will be fully funded after the FY26 payment at which time the schedule will phase down the total appropriation amount to only normal cost and net 3(8)(c) payments in FY29.

#### **GASB 67/68**

The auditors requested we use the results of this valuation to prepare the Governmental Accounting Standards Board (GASB) disclosures for the fiscal year ending June 30, 2023 and the plan year ending December 31, 2022. The statements are commonly referred to as GASB 67 and GASB 68. GASB 67 relates to financial reporting for state and local government pension plans (plan financials). GASB 68 relates to financial reporting by state and local governments for pension plans (employer financials). We have used a measurement date of December 31 in each year we have provided these disclosures. We have not provided any GASB 67/68 exhibits in this report. These disclosure exhibits were provided under separate cover.

#### **COVID-19 Pandemic**

The assumptions in this report do not reflect any potential impacts of the COVID-19 pandemic on the System. In the short-term, the pandemic likely had a material effect on the mortality experience, and to a lesser extent, the retirement and withdrawal experience in ways not anticipated by the assumptions on which the projections are based.

### 3. SUMMARY OF VALUATION RESULTS

A. Number of Members on Current Valuation Date	
Active Members	1,204
Vested Terminated Members	49
Non-Vested Terminated Members	325
Retired Members and Survivors	<u>900</u>
Total	2,478
B. Total Regular Compensation of Active Members	\$56,391,267
C. Present Value of Future Benefits	
Active Members	\$227,465,642
Retirees, Survivors, and Inactive Members	<u>209,574,311</u>
Total Present Value of Future Benefits	\$437,039,953
D. Normal Cost	
Total Normal Cost	\$9,793,197
Expected Employee Contributions	<u>5,033,682</u>
Net Employer Normal Cost	\$4,759,515
E. Actuarial Liability	
Active Members	\$139,092,293
Vested Terminated Members	5,893,471
Non-Vested Terminated Members	2,712,687
Retirees and Survivors	<u>200,968,153</u>
Total Actuarial Liability	\$348,666,604
F. Actuarial Value of Assets	\$332,726,708
G. Unfunded Actuarial Liability: E – F	\$15,939,896
H. Funded Ratio: F/E	95.4%

#### 4. APPROPRIATION DEVELOPMENT FOR FISCAL YEAR 2024

##### A | DERIVATION OF APPROPRIATION

###### Cost Under Current Funding Schedule

1. a. Employer Normal Cost as of January 1, 2023	\$4,759,515
b. Estimated Expenses	\$1,500,000
c. Total Employer Normal Cost (a+b, adjusted for timing)	\$6,576,403
2. Net 3(8)(c) payments	\$300,000
3. a. Unfunded Actuarial Liability as of January 1, 2023	\$15,939,896
b. FY24 amortization payment (7.0% total cost increase then phase-down to normal cost in FY29) *	\$6,496,597
4. Total FY24 Payment [Sum of 1(c), 2, and 3(b)]	\$13,373,000

\* FY24 appropriation was maintained at the same level as the prior schedule.

All amounts assume payments will be made October 1 of each fiscal year.

4. APPROPRIATION DEVELOPMENT FOR FISCAL YEAR 2024 *(continued)*

B | CURRENT FUNDING SCHEDULE

<b><u>Fiscal Year</u></b>	<b><u>Normal Cost</u></b>	<b><u>Net 3(8)(c)</u></b>	<b><u>Amort. of UAL</u></b>	<b><u>Total Cost</u></b>	<b><u>Unfunded Act. Liab.</u></b>	<b><u>% Increase Total Cost</u></b>
2024	6,576,403	300,000	6,496,597	13,373,000	16,477,867	
2025	6,872,341	300,000	7,136,659	14,309,000	10,766,397	7.00%
2026	7,181,596	300,000	7,018,404	14,500,000	3,997,111	1.33%
2027	7,504,768	300,000	4,695,232	12,500,000	(3,104,892)	-13.79%
2028	7,842,483	300,000	2,357,517	10,500,000	(8,246,127)	-16.00%
2029	8,195,395	300,000		8,495,395	(11,278,968)	-19.09%
2030	8,564,187	300,000		8,864,187	(12,040,299)	4.34%
2031	8,949,576	300,000		9,249,576	(12,853,019)	4.35%

All amounts assume payments will be made October 1 of each fiscal year.  
 FY24 normal cost includes assumed expenses of \$1,500,000 and is assumed to increase 4.5% per year.  
 FY24 appropriation was maintained at the same level as the prior schedule.

## 5. PLAN ASSETS

### A | BREAKDOWN OF ASSETS BY INVESTMENT TYPE

Cash and Cash Equivalents	\$6,087,211
PRIT Fund	308,928,460
Accounts Receivable	1,126,272
Accounts Payable	<u>(19,021)</u>
Total	\$316,122,922

### B | BREAKDOWN OF ASSETS BY FUND

Annuity Savings Fund	\$47,090,060
Annuity Reserve Fund	15,096,317
Military Fund	14,827
Pension Fund	23,698,024
Pension Reserve Fund	<u>230,223,694</u>
Total	\$316,122,922

C | MARKET VALUE OF ASSETS \$316,122,922

D | ACTUARIAL VALUE OF ASSETS \$322,726,708

## 5. PLAN ASSETS *(continued)*

### E | DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

	2021	2022	2023
<b>A. Development of total investment income including appreciation</b>			
1. Beginning of year market value	302,347,041	358,899,910	316,122,922
2a. Employee contributions	5,083,331	5,433,912	
b. Employer contributions	11,680,000	12,498,000	
c. Other receipts	1,244,397	1,324,737	
d. Total receipts: (a) + (b) + (c)	18,007,728	19,256,649	
e. Benefit payments	17,268,492	18,227,930	
f. Expenses	2,038,490	2,112,136	
g. Other disbursements	2,176,514	2,839,975	
h. Total disbursements: (e) + (f) + (g)	21,483,496	23,180,041	
i. Cash flow: (d) – (h)	(3,475,768)	(3,923,392)	
3. End of year market value	358,899,910	316,122,922	
4. Investment income including appreciation: (3) – (1) – (2i)	60,028,637	(38,853,596)	
<b>B. Expected market value development</b>			
1. Beginning of year market value	302,347,041	358,899,910	
2. Cash flow (A2(i))	(3,475,768)	(3,923,392)	
3. Expected Return on (1)	20,408,425	24,225,744	
4. Expected return on cash flow A2(i) x 0.0675 / 2	(117,307)	(132,414)	
5. Expected market value end of year (1)+(2)+(3)+(4)	319,162,391	379,069,847	
<b>C. Gain/(loss) for year: A3-B5</b>	39,737,519	(62,946,925)	
<b>D. Development of Actuarial Value of Assets</b>			
1. Beginning of year market value	302,347,041	358,899,910	316,122,922
2a. Asset gain/(loss) in prior year	13,842,145	39,737,519	(62,946,925)
b. Asset gain/(loss) in 2 <sup>nd</sup> prior year	21,871,926	13,842,145	39,737,519
c. Asset gain/(loss) in 3 <sup>rd</sup> prior year	(21,709,573)	21,871,926	13,842,145
d. Asset gain/(loss) in 4 <sup>th</sup> prior year	21,224,339	(21,709,573)	21,871,926
3. Unrecognized gain/(loss) .8 x [2a] + .6 x [2b] + .4 x [2c] + .2 x [2d]	19,757,911	44,502,158	(16,603,786)
4. Beginning of year actuarial value of assets: [1] - [3]	282,589,130	314,397,752	332,726,708
5. Actuarial value / Market value	93.5%	87.6%	105.3%
6. Adjusted actuarial value: (4) but not less than 90% nor greater than 110% of market value	282,589,130	323,009,919	332,726,708



## 6. DEVELOPMENT OF THE ACTUARIAL GAIN OR LOSS (In thousands)

### A | GAIN/(LOSS) ON ACTUARIAL LIABILITY

1. Actuarial Liability 1/1/21	323,223
2. Total Normal Cost 1/1/21	8,766
3. Interest on (1) and (2)	22,409
4. Benefits paid during 2021 [a]	16,768
5. Interest on (4) assuming mid-year payment	566
6. Expected Actuarial Liability 1/1/22 before adjustments: (1)+(2)+(3)-(4)-(5)	337,064
7. Estimated Total Normal Cost 1/1/22:	9,160
8. Interest on (6) and (7)	23,370
9. Benefits paid during 2022 [a]	17,658
10. Interest on (9) assuming mid-year payment	596
11. Expected Actuarial Liability 1/1/23 before adjustments: (6)+(7)+(8)-(9)-(10)	351,341
12. Increase due to change in mortality assumption	808
13. Increase due to COLA base change	3,914
14. Expected Actuarial Liability 1/1/23: (11)+(12)+(13)	356,063
15. Actuarial Liability 1/1/23	348,667
16. Total Gain/(Loss): (14)-(15)	7,396

### B | GAIN/(LOSS) ON PLAN ASSETS

1. Actuarial Value of Assets (AVA) 1/1/21	282,589
2. Interest on (1)	19,075
3. Net Receipts [b]	18,008
4. Net Disbursements [b]	21,483
5. Net Cash Flow: (3)-(4)	(3,475)
6. Interest on (5) assuming mid-year payment	(117)
7. Expected AVA 1/1/22: (1)+(2)+(5)+(6)	298,071
8. Interest on (7)	20,120
9. Net receipts [b]	19,257
10. Net disbursements [b]	23,180
11. Net Cash Flow: (9)-(10)	(3,923)
12. Interest on (11) assuming mid-year payment	(132)
13. Expected AVA 1/1/23: (7)+(8)+(11)+(12)	314,136
14. AVA 1/1/23	332,727
15. Total Gain/(Loss) on Assets: (14)-(13)	18,591

### C | TOTAL GAIN/(LOSS)

1. Actuarial liability Gain/(Loss) (A16)	7,396
2. Asset Gain/(Loss) (B15)	18,591
3. Total Gain/(Loss): (1)+(2)	25,987

[a] Estimated

[b] From Annual Statement

## 7. GASB INFORMATION

The actuarial information required by Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68 replaced the information required by Statement Nos. 25 and 27.

The information required by GASB 67 (plan) is to be reported and measured as of December 31 each year.

The information required by GASB 68 (employer) is to be reported as of the end of the fiscal year (June 30 for cities and towns). We are allowed to select a measurement date at any date during the fiscal year. We have selected a measurement date of December 31 which is consistent with GASB 67.

We have not provided any GASB 67 or 68 exhibits in this valuation report. We provided the disclosure exhibits under separate cover.

Although GASB 25 no longer applies, we are including the schedule of funding progress previously required by the Statement to provide historical context.

### Schedule of Funding Progress

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 Cov. Payroll ((b-a)/c)
1/1/23	\$322,726,708	\$348,666,604	\$15,939,896	95.4%	\$56,391,267	28.3%
1/1/21	\$282,589,130	\$323,222,853	\$40,633,723	87.4%	\$51,363,313	79.1%
1/1/19	\$243,644,680	\$290,899,061	\$47,254,381	83.8%	\$47,202,931	100.1%
1/1/17	\$214,133,210	\$258,608,965	\$44,475,755	82.8%	\$43,687,436	101.8%
1/1/15	\$186,822,143	\$227,361,343	\$40,539,200	82.2%	\$42,306,759	95.8%

\* excludes State reimbursed COLA

## 8. INFORMATION ON SYSTEM MEMBERSHIP

A critical element of an actuarial valuation is accurate and up-to-date membership information. PERAC conducted an extensive review of member data submitted for this valuation.

### A | ACTIVE MEMBERS

	Actives	Vested Terminations
Number of Members	1,204	49
Average Age	48.5	51.0
Average Service	9.6	13.6
Average Salary	\$46,837	\$38,875
Average Annuity Savings Fund Balance	\$34,946	\$46,041

### Age by Service Distribution of Active Members

Present Age	Years of Service							Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	
< 25	50							50
25 - 29	82	12						94
30 - 34	69	25	4					98
35 - 39	59	26	15	9				109
40 - 44	57	19	6	10	3			95
45 - 49	49	45	12	16	16	4		142
50 - 54	47	36	21	27	13	13	6	163
55 - 59	52	31	24	30	17	15	14	183
60 - 64	40	31	18	27	31	20	12	179
65+	16	13	10	17	15	10	10	91
<b>Total</b>	<b>521</b>	<b>238</b>	<b>110</b>	<b>136</b>	<b>95</b>	<b>62</b>	<b>42</b>	<b>1,204</b>

## 8. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

### A | ACTIVE MEMBERS *(continued)*

#### Salary by Age Distribution of Active Members

Present Age	Number of Members	Total Salary	Average Salary
0 - 24	50	\$1,867,790	\$37,356
25 - 29	94	\$4,231,843	\$45,020
30 - 34	98	\$4,593,593	\$46,873
35 - 39	109	\$5,510,257	\$50,553
40 - 44	95	\$4,421,179	\$46,539
45 - 49	142	\$7,322,572	\$51,567
50 - 54	163	\$8,028,356	\$49,254
55 - 59	183	\$8,622,928	\$47,120
60 - 64	179	\$8,251,573	\$46,098
65+	91	\$3,541,176	\$38,914
Total	1,204	\$56,391,267	\$46,837

8. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

B | RETIREES AND SURVIVORS

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Number of Members	793	8	23	76	900
Average Age	73.3	61.2	64.4	72.9	72.9
Average Annual Benefit	\$20,761	\$14,890	\$37,707	\$14,984	\$20,654

Benefit by Payment and Retirement Type

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Total Annuity	\$3,549,100	\$27,849	\$76,848	\$221,270	\$3,875,067
Pension (excluding State reimbursed COLA)	\$12,895,616	\$91,272	\$783,161	\$901,631	\$14,671,680
State reimbursed COLA	\$19,081	\$0	\$7,260	\$15,857	\$42,198
Total	\$16,463,797	\$119,121	\$867,269	\$1,138,758	\$18,588,945

## 8. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

### B | RETIREES & SURVIVORS *(continued)*

#### Benefit by Age Distribution

Present Age	Number of Members	Total Benefits	Average Benefits
Less than 40	4	\$117,788	\$29,447
40 - 44	5	\$136,731	\$27,346
45 - 49	1	\$35,270	\$35,270
50 - 54	9	\$233,417	\$25,935
55 - 59	39	\$688,119	\$17,644
60 - 64	94	\$2,148,115	\$22,852
65 - 69	203	\$4,855,167	\$23,917
70 - 74	203	\$4,195,304	\$20,667
75 - 79	152	\$2,875,995	\$18,921
80 - 84	81	\$1,626,029	\$20,074
85 - 89	65	\$1,093,063	\$16,816
90+	44	\$583,947	\$13,272
Totals	900	\$18,588,945	\$20,654

## 9. VALUATION COST METHODS

### A | ACTUARIAL COST METHOD

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the *Entry Age Normal Cost Method*. Under this method the *Normal Cost* for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a member of the retirement system, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The *Actuarial Liability* for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactive members, retirees and survivors is simply equal to the present value of all projected benefits. The sum of Normal Cost and Actuarial Liability for each member is equal to the Normal Cost and Actuarial Liability for the Plan. The *Unfunded Actuarial Liability* is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership except for changes in provisions of the Plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also change due to the addition of new members or the retirement, death or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the Plan provisions or actuarial assumptions are changed.

Differences each year between the actual experience of the Plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is called an *Actuarial Loss* and one which decreases the Unfunded Actuarial Liability is called an *Actuarial Gain*.

### B | ASSET VALUATION METHOD

The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring 2 years ago are recognized, etc., so that 100% of gains or losses occurring 5 years ago are recognized. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value.

# 10. ACTUARIAL DISCLOSURES

## A | RISK

Risk is defined as the potential for differences in future plan measurements resulting from actual future experience deviating from actual assumed experience. The plan is subject to a number of risks that could affect the plan’s future financial condition. Examples of risk include the following:

- Investment risk – the potential that investment returns will be different than expected;
- Asset/liability mismatch risk – the potential that changes in asset values are not matched by changes in the liabilities;
- Interest rate risk – the potential that interest rates will be different than expected;
- Longevity and demographic risk – the potential that mortality or other demographic experience will be different than expected;
- Contribution risk – the potential that employer contributions to the plan will not be made or will not be made at the assumed level.

In this section, we provide a brief analysis of several risk measures that we believe are most significant for the plan. A more detailed risk assessment that includes further scenario testing (assessing the impact of one or several events on the plan’s financial condition, for example projecting plan investment returns), stress testing (assessing the impact of an adverse change in one or several factors), sensitivity testing (assessing the impact of a change in an actuarial assumption), or stochastic modeling (generating numerous possible outcomes by allowing for random variations in input items to assess the distribution of the outcomes) may provide a better understanding than the analysis in this section.

### *Unfunded Actuarial Liability and Funded Ratio*

The plan’s unfunded actuarial liability (UAL) and the funded ratio for the past 10 years are shown below. The UAL is the Actuarial Liability less the Actuarial Value of Assets. The funded ratio is the Actuarial Value of Assets divided by the Actuarial Liability. The retirement system is said to be fully funded when the UAL is zero, or said another way, when the funded ratio is 100%. Actuarial valuations have been performed every two years over this period and the valuation results are determined as of January 1.

	Valuation Date					
	2013	2015	2017	2019	2021	2023
UAL (in millions)	\$44.8	\$40.5	\$44.5	\$47.3	\$40.6	\$15.9
Funded Ratio	77.6%	82.2%	82.8%	83.8%	87.4%	95.4%

The UAL was fairly consistent through 2017, increased in 2019 and decreased in both 2021 and 2023. Reductions in the investment return assumption and changes to the mortality assumption in the past 10 years have increased the plan’s actuarial liability and therefore the UAL. The plan has reduced its investment return assumption several times from 7.75% in the 2013 valuation to the current assumption. The mortality assumption has also been updated several times including the adoption of a fully generational table in 2016 and the update described in this report. For comparison, using the January 1, 2013 plan assumptions, the UAL as of January 1, 2023 would be approximately -\$28.2 million.

The funded ratio has generally increased over this period. The assumption changes described above have also significantly impacted the funded ratio. For comparison, using the 2013 plan assumptions, the 2023 funded ratio would be approximately 109%.



## 10. ACTUARIAL DISCLOSURES *(continued)*

### A | RISK *(continued)*

#### *Investment Return Assumption and Funding Schedule*

Investment return assumption: 6.75%

Amortization of UAL basis: 7.0% total appropriation increase in FY25. The system is expected to be fully funded in FY26 with future payments phasing down to only normal cost beginning in FY29

The System maintained the investment return assumption at 6.75% in this valuation. For comparison, currently 75 Massachusetts systems use an assumption of 7.0% or below.

It is important to note that our emphasis for the past several years has been to establish funding schedules that complete the amortization of the UAL no later than FY35. This allows systems some flexibility in the event of another market downturn. We believe establishing a schedule that completes the amortization of the UAL by FY35 should be a top priority. The system's schedule completes the amortization of the UAL in FY26.

# 10. ACTUARIAL DISCLOSURES *(continued)*

## A | RISK *(continued)*

### *Maturity and Volatility Measures*

There are several plan maturity and volatility ratios that can provide significant insight into the level of a plan’s risk. To illustrate, we are providing two such measures. In both cases, we show the 10-year history of the ratio. In addition, we comment on how the results compare with other local systems. We believe that these measures are more useful when compared to historical averages and the results of other plans. See our notes earlier in this section regarding the 2008 investment loss and assumption changes over this period which significantly affect these results.

#### Retiree Actuarial Liability / Total Actuarial Liability

This ratio measures the percentage of actuarial liability due to the plan’s retirees. Higher ratios and/or an increase in this ratio indicate a system that is more mature or becoming more mature. As this ratio increases, it generally indicates the retired population is increasing faster than the active member population and there is a greater likelihood of negative cash flow (benefit payments exceeding employer and employee contributions). Retirees in pay status are more expensive than younger members. As a plan matures, it becomes more sensitive to investment volatility and the plan will have more difficulty recovering from losses even with increases in employer contributions.

	Valuation Date					
	2013	2015	2017	2019	2021	2023
Retiree/Total Liability	0.47	0.48	0.51	0.53	0.55	0.58

The ratios for this system show a steady increase indicating the plan has become more mature. Public sector plans often have aging populations generating an increase in this ratio. We have found this to be generally true for the systems for which PERAC is the actuary. In 2013, this ratio ranged from .35 to .61. In recent valuations this range has increased to .47 to .67. Many local systems have seen an increase in this ratio over the past 10-15 years as the number of retirees, and specifically the retiree liability has increased as a percentage of the total. A number of systems have had fairly consistent ratios and a few have had decreasing ratios. Such systems have already reached and or maintained a more mature level.

#### Actuarial Liability / Pay

This measure reflects how a change in actuarial liability (and therefore UAL) may impact the adequacy of contributions. As this ratio increases, plan contributions (using a traditional amortization schedule) increase as a percentage of pay. Furthermore, like the Retiree Liability ratio noted above, higher ratios exacerbate the impact of investment losses on plan contributions.

	Valuation Date					
	2013	2015	2017	2019	2021	2023
Actuarial Liability/Pay	5.0	5.4	5.9	6.2	6.3	6.2

This system shows mostly increasing rates with the rates levelling in 2019. For comparison with other PERAC systems, in 2013, this ratio ranged from 4.6 to 7.6. For more recent valuations this range has increased. The ratios currently range from 5.1 to 8.8. This ratio has increased for most local systems indicating increasing levels of risk.

10. ACTUARIAL DISCLOSURES (continued)

A | RISK (continued)

*Impact of Investment Returns on Unfunded Liability and Funded Ratio (Market Value Basis)*

We have prepared a simple 5-year projection illustrating the potential impact of actual investment returns on funding levels. For this estimate, we used the market value of assets and did not attempt to develop an actuarial value of assets. In projecting the actuarial liability, we assumed the January 1, 2023 actuarial assumptions are exactly realized over the next 5 years and that there are no changes in assumptions over this period.

We first projected the market value of assets assuming the actual return for each of the next 5 years is 6.75% (the assumption used in the valuation). For comparison, we have also shown the results if the return were 3.0% each year. The 3.0% assumption is not intended to be a worst-case basis, but only to reflect the impact of a lower short-term return than the current plan assumption. As discussed earlier in the Executive Summary, projected returns are lower over the next 10 years than over the next 30 years.

	Valuation Date					
	2023	2024	2025	2026	2027	2028
UAL (in millions)						
6.75%	\$32.5	\$29.7	\$26.0	\$22.4	\$20.9	\$22.0
3.00%	\$32.5	\$41.5	\$50.6	\$60.9	\$74.5	\$91.7
Funded Ratio						
6.75%	90.7%	91.8%	93.1%	94.4%	94.9%	94.9%
3.00%	90.7%	88.6%	86.6%	84.6%	82.0%	78.8%

For this comparison, we assumed that for the 3.0% projections, the appropriation for the next 5 years would remain as in the current funding schedule (and the same as that if the actual returns were 6.75% per year). If returns were actually 3.0% per year, the funding schedule would likely have to be increased before FY28.

The system is expected to be fully funded on an actuarial value basis in FY26. The current funding schedule reflects this. The projection above is based on the market value of assets. Because the schedule phases to only normal cost in FY29, the projection shows an unusual result in 2028 with the UAL increasing even though the assumption is expected to be met.

*Cash Flow*

Cash flow reflects receipts (primarily employee and employer contributions) less disbursements (primarily benefit payments and expenses). We use the information provided in the Annual Statement but subtract any investment income credit or excess investment income entries from the total receipts. Then we measure the ratio of receipts to disbursements. A ratio greater than 1.0 means receipts are greater than disbursements (positive cash flow). Likewise, a ratio less than 1.0 means receipts are less than disbursements (negative cash flow).

Most Massachusetts public systems have negative cash flow. This is not a significant issue for long-term funding but presents potential issues for short-term funding. All else being equal, over the short term, a negative cash flow produces a yearly funded ratio lower than it would have been if there were positive cash flow. This is because a portion of the investment earnings are being used to pay the net benefits and expenses. Therefore, less of the investment earnings are included in the end of the year value of the plan assets resulting in a lower MVA and a lower funded ratio. This may dampen funded ratio expectations somewhat when reviewing 5-year projections. This plan had a ratio of 0.77, 0.84, 0.87, 0.84 and 0.83 using the 2017, and 2019-2022 Annual Statements respectively. The ratio has generally remained consistent over the past 5 years. Since the ratio is near 1.0, there is not a significant impact on our 5-year funded ratio projections.

## 10. ACTUARIAL DISCLOSURES *(continued)*

### B | ACTUARIAL MODELS

The software used in our actuarial valuations measures the present value of the plan's actuarial liabilities from which we develop funding schedules that determine annual appropriations for each system. The software was created and is maintained by a national vendor of actuarial software. We have used this software for over 20 years. We periodically review the results of the software by analyzing detailed individual test lives and have compared our results to those of other actuaries using the same data set. The valuation output is prepared before a final review by the actuary.

In addition, we used a simple projection model prepared in a spreadsheet, to perform a rough analysis of the impact of investment returns on the unfunded actuarial liability and funded ratio for the next five years. The work is tailored to each valuation and reviewed by the actuary.

## 11. ACTUARIAL ASSUMPTIONS

### ***Investment Return/Discount Rate***

6.75% per year net of investment expenses *(same as the prior assumption)*

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgment. We considered analysis prepared by PRIM's investment advisor using a building block approach which included expected returns by asset class, risk analysis, and the determination of a 30-year expected target rate of return.

### ***Inflation***

2.5% per year

### ***Interest Rate Credited to the Annuity Savings Fund***

3.5% per year

### ***Assumed Rate of Cost-of-Living Increases (COLA)***

3.0% per year (on the first \$16,000 of an allowance)

### ***Mortality***

Pre-retirement mortality reflects the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2021 (gender distinct). *(Prior assumption reflected the same base table projected generationally with Scale MP-2020.)*

Post-retirement mortality reflects the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2021 (gender distinct). *(Prior assumption reflected the same base table projected generationally with Scale MP-2020.)*

For disabled members, the mortality rate is assumed to be in accordance with the RP-2014 Blue Collar Healthy Annuitant Table (set forward one year for both males and females) projected generationally with Scale MP-2021 (gender distinct). *(Prior assumption reflected the same base table projected generationally with Scale MP-2020.)*

It is assumed that 55% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

We completed a local system retiree mortality study in 2019. As part of our analysis, we compared our experience to the new public retirement plan mortality tables released in early 2019 (the Pub-2010 Mortality Tables). Public plans from Massachusetts were not included in this study. We found that our experience was not consistent with these tables. The mortality assumptions selected reflect observed current mortality and expected mortality improvement as well as professional judgement.

11. ACTUARIAL ASSUMPTIONS *(continued)*

***Salary Increase***

Service	Group 1	Group 2	Group 4
0	6.00%	6.00%	7.00%
1	5.50%	5.50%	6.50%
2	5.50%	5.50%	6.00%
3	5.25%	5.25%	5.75%
4	5.25%	5.25%	5.25%
5	4.75%	4.75%	5.25%
6	4.75%	4.75%	4.75%
7	4.50%	4.50%	4.75%
8	4.50%	4.50%	4.75%
9	4.25%	4.50%	4.75%
10+	4.25%	4.50%	4.75%

The salary increase assumption reflects both prior experience and professional judgment.

***Withdrawal***

Based on analysis of past experience. Annual rates are based on years of service. Sample annual rates for Groups 1 and 2 are shown below. For Group 4 members the rate is 0.015 each year for service up to and including 10 years. No withdrawal is assumed thereafter.

Service	Groups 1 & 2
0	0.150
5	0.076
10	0.054
15	0.033
20	0.020

Withdrawal rates are based on our most recent experience analysis which reviewed age, gender and job group. The assumption reflects this analysis as well as professional judgment.

***Disability***

Based on an analysis of past experience. It is also assumed that the percentage of job-related disabilities is 55% for Groups 1 & 2 and 90% for Group 4.

Age	Groups 1 & 2	Group 4
20	0.00010	0.0010
30	0.00030	0.0030
40	0.00101	0.0030
50	0.00192	0.0125
60	0.00280	0.0085

Disability rates are based on our most recent experience analysis which reviewed age, gender and job group. The assumption reflects this analysis as well as professional judgment.

11. ACTUARIAL ASSUMPTIONS *(continued)*

**Expenses**

An amount of \$1.5 million has been included in the Normal Cost for FY24. This amount includes \$500,000 which represents the estimated administrative expenses and \$1.0 million which represents a portion of the investment related expenses. This amount is assumed to increase by 4.5% each year.

**Members Hired on or After April 2, 2012**

Chapter 176 of the Acts of 2011 changed the retirement eligibility for the different job groups. For example, Group 1 eligibility changed from 55 years old with 10 years of service to 60 years old with 10 years of service (Chapter 176 removed the provision that allowed retirement at any age with 20 years of service). Our software system is programmed such that at any given age, a member is assumed to either retire or terminate, but not both. Therefore, we adjusted the retirement and termination rates for members impacted by Chapter 176. For example, for Group 1 members, we removed retirement rates for ages 50-59. Termination rates remain in effect for those years. We will monitor these assumptions going forward.

**Retirement**

Age	Groups 1 & 2		Group 4
	Male	Female	
45-49	0.000	0.000	0.010
50	0.010	0.015	0.020
51	0.010	0.015	0.020
52	0.010	0.020	0.020
53	0.010	0.025	0.050
54	0.020	0.025	0.075
55	0.020	0.055	0.150
56	0.025	0.065	0.100
57	0.025	0.065	0.100
58	0.050	0.065	0.100
59	0.065	0.065	0.150
60	0.120	0.050	0.200
61	0.200	0.130	0.200
62	0.300	0.150	0.250
63	0.250	0.125	0.250
64	0.220	0.180	0.300
65	0.400	0.150	1.000
66	0.250	0.200	1.000
67	0.250	0.200	1.000
68	0.300	0.250	1.000
69	0.300	0.200	1.000
70 and after	1.000	1.000	1.000

Retirement rates are based on our most recent experience analysis which reviewed age, service, gender and job group. The assumption reflects this analysis as well as professional judgment.

# 12. SUMMARY OF PLAN PROVISIONS

## ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

## PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership under Chapter 32, but one of these classes, Group 3, is made up exclusively of the State Police who are in the State Retirement System. The other 3 classes are as follows:

**Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

**Group 2:**

Certain specified hazardous duty positions.

**Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.



12. SUMMARY OF PLAN PROVISIONS *(continued)*

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

AMOUNT OF SUPERANNUATION BENEFIT

A member’s annual allowance is determined by multiplying average salary by a benefit rate related to the member’s age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member’s highest three year (or five year salary as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation. For persons who become 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 persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

12. SUMMARY OF PLAN PROVISIONS *(continued)*

AMOUNT OF BENEFIT *(continued)*

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member’s retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member’s group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member’s group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member’s group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 72.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

12. SUMMARY OF PLAN PROVISIONS *(continued)*

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job-related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job-related condition prior to reaching “maximum age”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$1,060.80 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full-time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

12. SUMMARY OF PLAN PROVISIONS *(continued)*

ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$1,060.80 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident, and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one-time payment of \$300,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member’s death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010 the amount of this benefit is \$9,000 and for Systems that accept the provisions of Section 65 of Chapter 139 of the Acts of 2012 the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE *(OPTION D)*

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member’s minimum superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member’s minimum superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4 who became a member on or after April 2, 2012 and whose death occurred prior to the member’s minimum superannuation retirement age, the benefit shall be calculated using an age 55 factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member’s date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

12. SUMMARY OF PLAN PROVISIONS *(continued)*

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost-of-living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 (or the increased COLA base if adopted by the Board) of a retiree’s total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years, the COLA was calculated upon the first \$12,000 of a retiree’s allowance. Now the maximum base upon which the COLA is calculated varies from System to System. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member’s death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member’s total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member’s service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## 13. GLOSSARY OF TERMS

**Actuarial Accrued Liability** – That portion of the Actuarial Present Value of pension plan benefits which is not provided by future Normal Costs or employee contributions. It is the portion of the Actuarial Present Value attributable to service rendered as of the Valuation Date.

**Actuarial Assumptions** – Assumptions, based upon past experience or standard tables, used to predict the occurrence of future events affecting the amount and duration of pension benefits, such as: mortality, withdrawal, disablement and retirement; changes in compensation; rates of investment earnings and asset appreciation or depreciation; and any other relevant items.

**Actuarial Cost Method (or Funding Method)** – A procedure for allocating the Actuarial Present Value of all past and future pension plan benefits to the Normal Cost and the Actuarial Accrued Liability.

**Actuarial Gain or Loss (or Experience Gain or Loss)** – A measure of the difference between actual experience and that expected based upon the set of Actuarial Assumptions, during the period between two Actuarial Valuation dates.

**Note:** The effect on the Accrued Liability and/or the Normal Cost resulting from changes in the Actuarial Assumptions, the Actuarial Cost Method, or pension plan provisions would be described as such, not as an Actuarial Gain (Loss).

**Actuarial Present Value** – The dollar value on the valuation date of all benefits expected to be paid to current members based upon the Actuarial Assumptions and the terms of the Plan.

**Amortization Payment** – That portion of the pension plan appropriation which represents payments made to pay interest on and the reduction of the Unfunded Accrued Liability.

**Annual Statement** - The statement submitted to PERAC each year that describes the asset holdings and Fund balances as of December 31 and the transactions during the calendar year that affected the financial condition of the retirement system.

**Annuity Reserve Fund** – The fund into which total accumulated deductions, including interest, is transferred at the time a member retires, and from which annuity payments are made.

**Annuity Savings Fund** – The fund in which employee contributions plus interest credited are held for active members and for former members who have not withdrawn their contributions and are not yet receiving a benefit (inactive members).

**Assets** – The value of securities as described in Section 8.

**Cost of Benefits** – The estimated payment from the pension system for benefits for the fiscal year. This was the minimum amount payable during the first six years of some funding schedules.

**Funding Schedule** – The schedule based upon the most recently approved actuarial valuation which sets forth the amount which would be appropriated to the pension system in accordance with Section 22(6A), Section 22D or Section 22F of M.G.L. Chapter 32.

**GASB** – Governmental Accounting Standards Board

**Normal Cost** – Total Normal Cost is that portion of the Actuarial Present Value of pension plan benefits, which is to be paid in a single fiscal year. The Employee Normal Cost is the amount of the expected employee contributions for the fiscal year. The Employer Normal Cost is the difference between the Total Normal Cost and the Employee Normal Cost.

### 13. GLOSSARY OF TERMS *(continued)*

***Pension Fund*** – The fund into which appropriation amounts as determined by PERAC are paid and from which pension benefits are paid.

***Pension Reserve Fund*** – The fund which shall be credited with all amounts set aside by a system for the purpose of establishing a reserve to meet future pension liabilities. These amounts would include excess interest earnings.

***Present Value of Future Benefits*** - The value on the valuation date of all of the future benefits that are expected to be paid to members of the System discounted with interest and the probability of benefit receipt

***Special Fund for Military Service Credit*** – The fund which is credited with amounts paid by the retirement board equal to the amount which would have been contributed by a member during a military leave of absence as if the member had remained in active service of the retirement board. In the event of retirement or a non-job related death, such amount is transferred to the Annuity Reserve Fund. In the event of termination prior to retirement or death, such amount shall be transferred to the Pension Fund.

***Unfunded Actuarial Accrued Liability*** – The excess of the Actuarial Accrued Liability over the Assets.

**COMMONWEALTH OF MASSACHUSETTS**

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