Dedham Contributory Retirement System

Actuarial Valuation and Review as of January 1, 2024

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October 16, 2024

Retirement Board
Dedham Contributory Retirement System
202 Bussey Street, Suite 101
Dedham, MA 02026

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2024. It summarizes the actuarial data used in the valuation, analyzes the preceding two years' experience, and establishes the funding requirements for fiscal 2025 and later years.

This report has been prepared in accordance with generally accepted actuarial principles and practices for the exclusive use and benefit of the Board, based upon information provided by the staff of the System and the System's other service providers.

Segal does not audit the data provided. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. To the extent we can, however, Segal does review the data for reasonableness and consistency. Based on our review of the data, we have no reason to doubt the substantial accuracy of the information on which we have based this report and we have no reason to believe there are facts or circumstances that would affect the validity of these results.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. The assumptions used in this actuarial valuation were selected by the Board based upon our analysis and recommendations. In my opinion, the assumptions are reasonable and take into

account the experience of the System and reasonable expectations. In addition, in my opinion, the combined effect of these assumptions is expected to have no significant bias.

Segal makes no representation or warranty as to the future status of the System and does not guarantee any particular result. This document does not constitute legal, tax, accounting or investment advice or create or imply a fiduciary relationship. The Board is encouraged to discuss any issues raised in this report with the System's legal, tax and other advisors before taking, or refraining from taking, any action.

We look forward to reviewing this report with you and to answering any questions.

Sincerely,

Segal

Lisa VanDermark, FSA, MAAA, EA
Vice President and Consulting Actuary

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Section 1: Actuarial Valuation Summary

Purpose and basis

This report has been prepared by Segal to present a valuation of the Dedham Contributory Retirement System as of January 1, 2024. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits.

The contribution requirements presented in this report are based on:

- The benefit provisions of Massachusetts General Law Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of December 31, 2023, provided by the staff of the Retirement System;
- The assets of the System as of December 31, 2023, provided by the staff of the Retirement System;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.

Certain disclosure information required by GASB Statements No. 67 and 68 as of December 31, 2023 for the System is provided in a separate report.

Valuation highlights

- Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the unfunded actuarial accrued liability and the principal balance. The funding policy adopted by the Board meets this standard and funds the unfunded actuarial accrued liability by June 30, 2029.
- The actuarial loss of $593,235, is due to an investment loss of $1,395,572, and a gain from sources other than investments of $802,337 prior to reflection of assumption and plan changes.
- The rate of return on the market value of assets was 11.02% for the year ending December 31, 2023 and -11.37% for the year ending December 31, 2022. The return on the actuarial value of assets was 6.30% and 6.96% for the same periods due to the recognition of prior years' investment gains and losses. This resulted in an actuarial loss when measured against the assumed rate of return of 7.00%.
- The actuarial value of assets is 104.1% of the market value of assets. The investment experience in the past years has only been partially recognized in the actuarial value of assets. As the deferred net loss is recognized in future years, the cost of the System is likely to decrease unless the net gain is offset by future experience.
- The following actuarial assumption was approved by the Board and changed with this valuation:
  - The administrative expense assumption was increased to $375,000 for calendar year 2024 (previously, $320,000).
- The following plan changes are included for the first time in this valuation:
  - The Board adopted a one-time increase in the COLA from 3% to 5% effective July 1, 2022. This change increased the January 1, 2024 accrued liability by $1.0 million.
  - The January 1, 2022 actuarial valuation reflected an increase in the COLA base from $15,000 to $18,000, as approved by the Board but subject to approval by Dedham's Town Meeting. Subsequent to the issuing of that report, Dedham's Town Meeting did not approve that increase. As a result, a COLA base of $15,000 is reflected in this valuation. This decreased the accrued liability by $2.7 million and the normal cost by $50,000.
- The funding schedule included in this report is projected to fully fund the System by June 30, 2029 with appropriations that increase 3.50% per year, if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions.

Changes from prior valuation

- The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 93.21%, compared to the prior funded ratio of 90.01%. This ratio is one measure of funding status, and its history is a measure of funding progress. Using the market value of assets, the funded ratio is 89.53%, compared to 100.01% as of the prior valuation date. These measurements are not

necessarily appropriate for assessing the sufficiency of the plan assets to cover the estimated cost of settling the System's benefit obligation or the need for or the amount of future contributions.

- The unfunded actuarial accrued liability is $14,446,183, which is a decrease of $5,737,811 since the prior valuation.

Risk

- It is important to note that this actuarial valuation is based on plan assets as of December 31, 2023. The System's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. Segal is available to prepare projections of potential outcomes of market conditions and other demographic experience upon request.
- Since the actuarial valuation results are dependent on a given set of assumptions, there is a risk that emerging results may differ significantly as actual experience proves to be different from the assumptions. We have not been engaged to perform a detailed analysis of the potential range of the impact of risk relative to the System's future financial condition, but have included a brief discussion of some risks that may affect the System in Section 2.

Summary of key valuation results

Valuation Result	Current	Prior
Contributions for fiscal year beginning	**July 1, 2024**	**July 1, 2022**
• Actuarially determined contributions	$4,794,232	$4,700,227
• Actuarially determined contributions as a percent of projected payroll	14.92%	15.93%
Actuarial accrued liability for plan year beginning	**January 1, 2024**	**January 1, 2022**
• Retired participants and beneficiaries	$119,738,124	$114,006,317
• Inactive vested participants	3,225,243	2,835,057
• Inactive participants due a refund of employee contributions	1,338,024	1,130,581
• Active participants	88,345,967	84,066,291
• Total	212,647,358	202,038,246
• Normal cost including administrative expenses for plan year beginning January 1	4,182,565	3,999,342
Assets for plan year beginning January 1		
• Market value of assets (MVA)	$190,389,799	$202,060,280
• Actuarial value of assets (AVA)	198,201,175	181,854,252
• Actuarial value of assets as a percentage of market value of assets	104.10%	90.00%
Funded status for plan year beginning January 1		
• Unfunded/(overfunded) actuarial accrued liability on market value of assets	$22,257,559	-$22,034
• Funded percentage on MVA basis	89.53%	100.01%
• Unfunded/(overfunded) actuarial accrued liability on actuarial value of assets	$14,446,183	$20,183,994
• Funded percentage on AVA basis	93.21%	90.01%

Section 1: Actuarial Valuation Summary

Valuation Result	Current	Prior
Key assumptions		
• Net investment return	7.00%	7.00%
• Inflation rate	3.00%	3.00%
Demographic data for plan year beginning January 1		
• Number of retired participants and beneficiaries	334	326
• Number of inactive vested participants	22	17
• Number of inactive participants due a refund of employee contributions	246	188
• Number of active participants	469	476
• Average projected compensation	$68,519	$61,984

Important information about actuarial valuations

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

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

Input Item	Description
Plan provisions	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.
Participant information	An actuarial valuation for a plan is based on data provided to the actuary by the System. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
Financial information	Part of the cost of a plan will be paid from existing assets — the balance will need to come from future contributions and investment income. The valuation is based on the asset values as of the valuation date, typically reported by the System. A snapshot as of a single date may not be an appropriate value for determining a single year's contribution requirement, especially in volatile markets. Plan sponsors often use an "actuarial value of assets" that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.
Actuarial assumptions	In preparing an actuarial valuation, Segal starts by developing a forecast of the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of participants in each year, as well as forecasts of the plan's benefits for each of those events. In addition, the benefits forecasted for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The forecasted benefits are then discounted to a present value, typically based on an estimate of the rate of return that will be achieved on the plan's assets. All of these factors are uncertain and unknowable. Thus, there will be a range of reasonable assumptions, and the results may vary materially based on which assumptions are selected within that range. That is, there is no right answer (except with hindsight). It is important for any user of an actuarial valuation to understand and accept this constraint. The actuarial model may use approximations and estimates that will have an immaterial impact on our results. In addition, the actuarial assumptions may change over time, and while this can have a significant impact on the reported results, it does not mean that the previous assumptions or results were unreasonable or wrong.

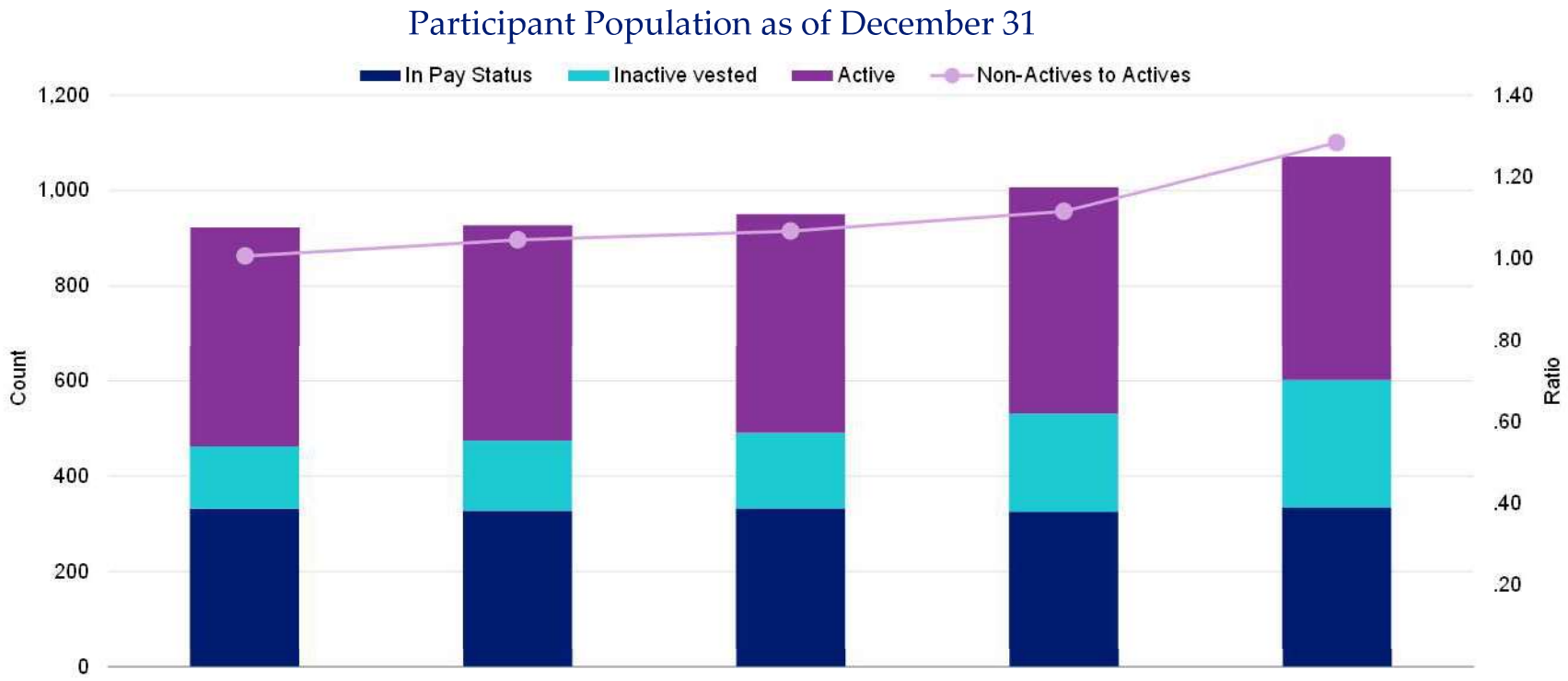
Section 1: Actuarial Valuation Summary

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

- The actuarial valuation is prepared at the request of the Board. Segal is not responsible for the use or misuse of its report, particularly by any other party.
- An actuarial valuation is a measurement at a specific date — it is not a prediction of a plan's future financial condition. Accordingly, Segal did not perform an analysis of the potential range of financial measurements, except where otherwise noted.
- If the Board is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting, or tax advice and is not acting as a fiduciary to the System. The valuation is based on Segal's understanding of applicable guidance in these areas and of the System's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.
- While Segal maintains extensive quality assurance procedures, an actuarial valuation involves complex computer models and numerous inputs. In the event that an inaccuracy is discovered after presentation of Segal's valuation, Segal may revise that valuation or make an appropriate adjustment in the next valuation.
- Segal's report shall be deemed to be final and accepted by the Board upon delivery and review. The Board should notify Segal immediately of any questions or concerns about the final content.

Section 2: Actuarial Valuation Results

Participant information



Legend	2017	2018	2019	2021	2023
In Pay Status	332	328	333	326	334
Inactive Vested[1]	131	146	158	205	268
Active	460	453	460	476	469
Ratio	1.01	1.05	1.07	1.12	1.28

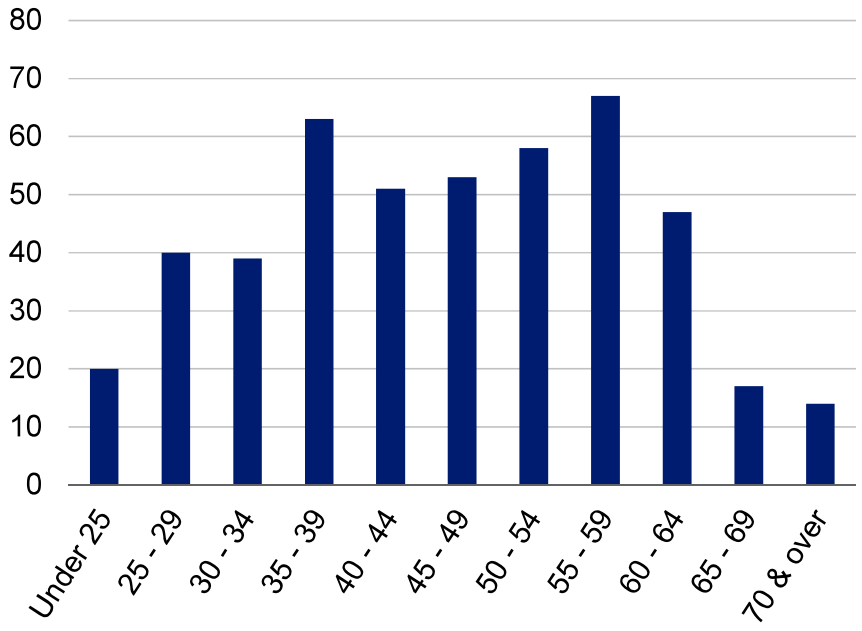
[1] Including terminated participants due a refund of employee contributions.

Active participants

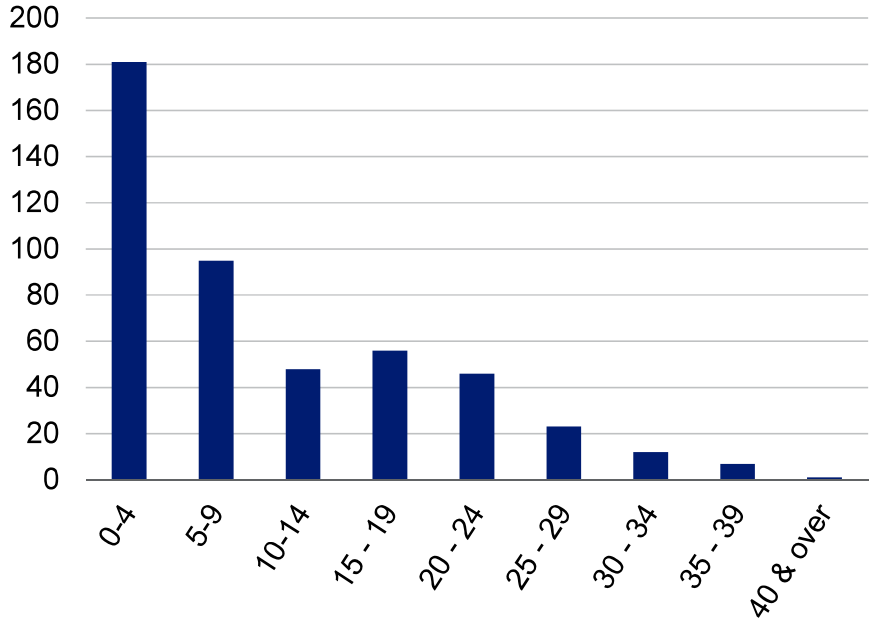
As of December 31,	2023	2021	Change
Active participants	469	476	-1.5%
Average age	46.6	47.1	-0.5
Average years of service	10.7	10.6	0.1
Average projected compensation	$68,519	$61,984	10.5%

Distribution of Active Participants as of December 31, 2023

Actives by Age



Actives by Years of Service

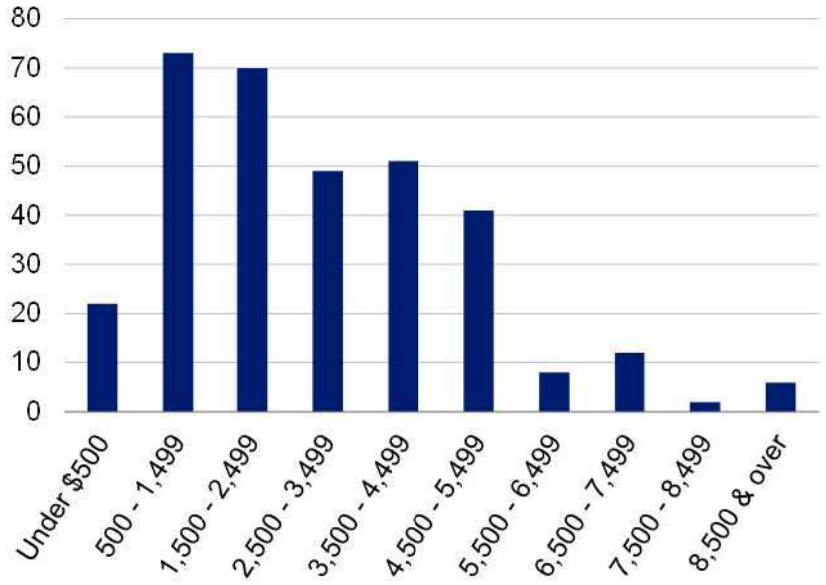


Retired participants and beneficiaries

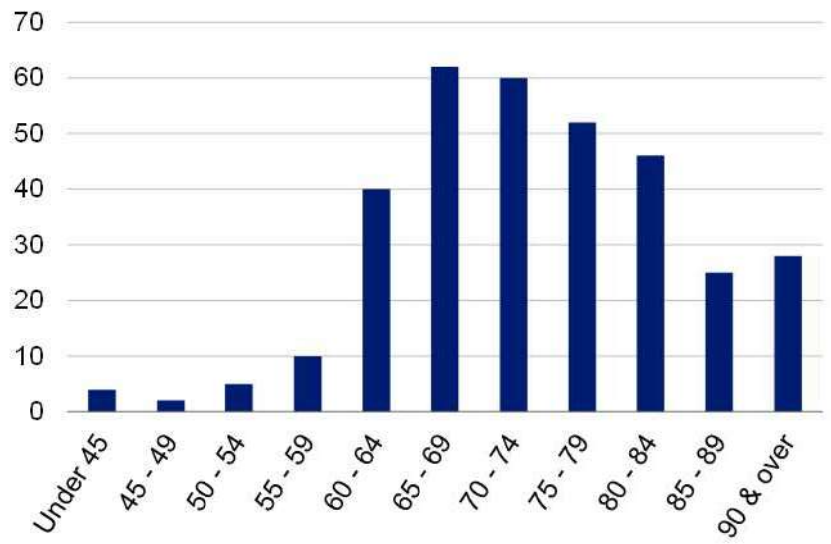
As of December 31,	2023	2021	Change
Retired participants	277	271	2.2%
Beneficiaries	57	55	3.6%
Average age	73.9	73.6	0.3
Average amount	$2,913	$2,771	5.1%
Total monthly amount	972,944	903,241	7.7%

Distribution of Retired Participants and Beneficiaries as of December 31, 2023

By Monthly Amount



By Age



Financial information

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

Determination of Actuarial Value of Assets

Step			December 31, 2023	December 31, 2022
1. Market value of assets			$190,389,799	$175,281,771
2. Calculation of unrecognized return	**Original Amount[1]**	**Percent Deferred**	**Unrecognized Amount[2]**	**Unrecognized Amount[2]**
a. Year ended December 31, 2023	$6,968,226	75%	$5,226,169	0
b. Year ended December 31, 2022	-36,742,097	50%	-18,371,048	-27,556,573
c. Year ended December 31, 2021	21,334,010	25%	5,333,503	10,667,006
d. Year ended December 31, 2020	7,356,703	0%	0	1,839,176
e. Total unrecognized return			-$7,811,376	-$15,050,391
3. Preliminary actuarial value: (1) - (2e)			198,201,175	190,332,162
4. Adjustment to be within 20% corridor			0	0
5. Final actuarial value of assets: (3) + (4)			**$198,201,175**	**$190,332,162**
6. Actuarial value as a percentage of market value: (5) ÷ (1)			104.1%	108.6%
7. Amount deferred for future recognition: (1) - (5)			-$7,811,376	-$15,050,391

[1] Total return minus expected return on a market value basis.
[2] Recognition at 25% per year over four years.

Actuarial experience

Assumptions should consider experience and should be based on reasonable expectations for the future.

Each valuation actual experience is compared to that projected by the assumptions. Differences are reflected in the actuarial valuation.

Assumptions are not changed if experience is believed to be a short-term development that will not continue over the long term. On the other hand, if experience is expected to continue, assumptions are changed.

Actuarial Experience for Two-Year Period Ended December 31, 2023

	Assumption	Amount
1.	Net gain/(loss) from investments[1]	-$1,395,572
2.	Gain/(loss) from administrative expenses	3,336
3.	Net gain/(loss) from other experience	799,001
4.	**Net experience gain/(loss): 1 + 2 + 3**	**-$593,235**

1 Details on next page

Investment experience

Actuarial planning is long term. The obligations of a pension plan are expected to continue for the lifetime of all its participants.

The assumed long-term rate of return of 7.00% considers past experience, the asset allocation policy of the Board and future expectations.

Investment Experience

Year Ended December 31, 2023 vs. Year Ended December 31, 2022

	Investment	YE 2023 Market Value	YE 2023 Actuarial Value	YE 2022 Market Value	YE 2022 Actuarial Value
1.	Net investment income	$19,098,291	$11,859,276	-$22,739,251	$12,517,168
2.	Average value of assets	173,286,640	188,337,031	200,040,651	179,834,623
3.	Rate of return: **1 ÷ 2**	11.02%	6.30%	-11.37%	6.96%
4.	Assumed rate of return	7.00%	7.00%	7.00%	7.00%
5.	Expected investment income: **2 x 4**	12,130,065	13,183,592	14,002,846	12,588,424
6.	Net investment gain/(loss): **1 – 5**	$6,968,226	-$1,324,316	-$36,742,097	-$71,256

Non-investment experience

Administrative expenses

Administrative expenses for the two-year period ending December 31, 2023 totaled $668,951, as compared to the assumption of $649,600. This resulted in an experience loss of $3,336 for the two-year period, including an adjustment for interest.

Other experience

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

- Mortality experience (more or fewer than expected deaths)
- The extent of turnover among participants
- Retirement experience (earlier or later than projected)
- The number of disability retirements (more or fewer than projected)
- Salary increases (greater or smaller than projected)

The net gain from this other experience for the two-year period ending December 31, 2023 amounted to $799,001, which is 0.4% of the actuarial accrued liability.

Actuarial assumptions

- The assumption change reflected in this report is:
  - The administrative expense assumption was increased from $320,000 to $375,000 for the year beginning January 1, 2024.

Plan provisions

- The Retirement Board approved a one-time increase in the COLA from 3% to 5% effective July 1, 2022. This change increased the accrued liability by $1.0 million.
- The January 1, 2022 actuarial valuation reflected an increase in the COLA base from $15,000 to $18,000, as approved by the Board but subject to approval by Dedham's Town Meeting. Subsequent to the issuing of that report, Dedham's Town Meeting did not approve that increase. As a result, a COLA base of $15,000 is reflected in this valuation. This decreased the accrued liability by $2.7 million and the normal cost by $50,000.

Unfunded/(overfunded) actuarial accrued liability

Development of Unfunded/(Overfunded) Actuarial Accrued Liability

	Unfunded/(Overfunded) Actuarial Accrued Liability		Year Ended December 31, 2023	Year Ended December 31, 2022
1.	Unfunded/(overfunded) actuarial accrued liability at beginning of year		$17,914,083	$20,183,994
2.	Normal cost at beginning of year		4,119,322	3,999,342
3.	Total contributions		-7,838,057	-7,717,508
4.	Interest on 1, 2 & 3		1,293,939	1,448,255
5.	**Expected unfunded/(overfunded) actuarial accrued liability**		**$15,489,287**	**$17,914,083**
6.	Changes due to:			
	a.	Net experience (gain)/loss	$593,235	
	b.	Assumptions	-	
	c.	Change in COLA Base	-2,682,654	
	d.	Adoption of 5% COLA	1,046,315	
	Total changes		**-$1,043,104**	
7.	Unfunded/(overfunded) actuarial accrued liability at end of year		$14,446,183	$17,914,083

Actuarially determined contribution

The actuarially determined contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. For fiscal 2025, the actuarially determined contribution has been set equal to the previously budgeted amount of $4,794,232.

The funding schedule included in this report is projected to fully fund the System by June 30, 2029, if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions, with appropriations that increase 3.50% per year.

Actuarially Determined Contribution

	Contribution	2024 Amount	2024 Percent of Projected Payroll	2022 Amount	2022 Percent of Projected Payroll
1.	Total normal cost	$3,807,565	11.85%	$3,679,342	12.47%
2.	Administrative expenses	375,000	1.17%	320,000	1.08%
3.	Expected employee contributions	-3,228,836	-10.05%	-2,938,529	-9.96%
4.	**Employer normal cost: (1) + (2) + (3)**	**$953,729**	**2.97%**	**$1,060,813**	**3.60%**
5.	Actuarial accrued liability	$212,647,358		$202,038,246	
6.	Actuarial value of assets	198,201,175		181,854,252	
7.	**Unfunded/(overfunded) actuarial accrued liability: (5) - (6)**	**$14,446,183**		**$20,183,994**	
8.	Employer normal cost projected to July 1, 2024 and 2022	967,929	3.01%	1,076,608	3.65%
9.	Projected unfunded/(overfunded) actuarial accrued liability	15,165,740		21,189,349	
10.	Payment on projected unfunded/(overfunded) actuarial accrued liability	3,826,303	11.91%	3,623,619	12.28%
11.	**Actuarially determined contribution: (8) + (10)**	**$4,794,232**	**14.92%**	**$4,700,227**	**15.93%**
12.	Projected payroll	$32,135,631		$29,504,571	

The funding schedule adopted by the Board is designed to reduce the volatility of the actuarially determined contribution by increasing the total contribution by a fixed percentage per year. If the actuarially determined contribution were determined by amortizing the projected July 1, 2024 unfunded actuarial liability over five years as a level percentage of payroll (a 3.00% increasing amortization schedule), plus payment of the fiscal 2025 employer normal cost, the actuarially determined contribution for fiscal 2025 would decrease from $4,794,232 to $4,188,537 and increase by approximately 3.00% per year.

The current funding schedule is intended to result in predictable employer contributions that eliminate the unfunded actuarial accrued liability within five years, thereby providing benefit security to plan participants while balancing the needs of current and future contributors to the plan.

Funding schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Remaining Unfunded Liability	(4) Actuarially Determined Contribution (ADC): (2)+(3)	(5) Total Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(6) Percent Increase in Actuarially Determined Contribution
2025	$967,929	$3,826,303	$4,794,232	$14,943,248	- -
2026	1,002,938	3,959,092	4,962,030	11,895,131	3.50%
2027	1,039,186	4,096,515	5,135,701	8,491,562	3.50%
2028	1,076,714	4,238,737	5,315,451	4,702,700	3.50%
2029	1,115,569	496,440	1,612,009	496,440	-69.67%
2030	1,155,796	0	1,155,796	0	-28.30%

Notes:
Fiscal 2025 actuarially determined contribution set to budgeted amount.
Actuarially determined contributions are assumed to be paid on July 1.
Item (2) reflects 3.0% growth in payroll and a 0.15% adjustment to total normal cost to reflect the effect of mortality improvements due to the generational mortality assumption.
Projected normal cost does not reflect the future impact of pension reform for new hires.
Projected unfunded actuarial accrued liability does not reflect the recognition of deferred investment gains or losses.

Department Breakouts of Actuarially Determined Contribution:

Fiscal Year Ended June 30	Housing	All Others	Total
2025	264,050	4,530,182	4,794,232
2026	347,665	4,614,365	4,962,030
2027	359,862	4,775,839	5,135,701

Notes:
Administrative expenses allocated in proportion to total normal cost
Actuarial value of assets allocated in proportion to actuarial accrued liability and adjusted for additional contributions made by the Town (the value of the additional contribution as of December 31, 2023 was $17,403,656)
Fiscal 2026 and 2027 actuarially determined contributions equal to the sum of projected employer normal cost plus the amortization of the unfunded liability allocated in proportion to the unfunded liability

Low-Default-Risk Obligation Measure (LDROM)

In December 2021, the Actuarial Standards Board issued a revision of Actuarial Standard of Practice No. 4 (ASOP 4) *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. One of the revisions to ASOP 4 requires the disclosure of a Low-Default-Risk Obligation Measure (LDROM) when performing a funding valuation. The LDROM presented in this report is calculated using the same methodology and assumptions used to determine the Actuarial Accrued Liability (AAL) used for funding, except for the discount rate. The LDROM is required to be calculated using "a discount rate…derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future."

The LDROM is a calculation assuming a plan's assets are invested in an all-bond portfolio, generally lowering expected long-term investment returns. The discount rate selected and used for this purpose is the Bond Buyer General Obligation 20-year Municipal Bond Index Rate, published at the end of each week. The last published rate in December of the measurement period, by The Bond Buyer (www.bondbuyer.com), is 3.26% for use effective December 31, 2023. This is the rate used to determine the discount rate for valuing reported public pension plan liabilities in accordance with Governmental Accounting Standards when plan assets are projected to be insufficient to make projected benefit payments, and the 20-year period reasonably approximates the duration of plan liabilities. The LDROM is not used to determine a plan's funded status or Actuarially Determined Contribution. The plan's expected return on assets, currently 7.00%, is used for these calculations.

As of December 31, 2023, the LDROM for the system is $337,042,760. The difference between the plan's AAL of $212,647,358 and the LDROM can be thought of as the increase in the AAL if the entire portfolio were invested in low-default-risk securities. Alternatively, this difference could also be viewed as representing the expected savings from investing in the plan's diversified portfolio compared to investing only in low-default-risk securities.

ASOP 4 requires commentary to help the intended user understand the significance of the LDROM with respect to the funded status of the plan, plan contributions, and the security of participant benefits. In general, if plan assets were invested exclusively in low-default-risk securities, the funded status would be lower and the Actuarially Determined Contribution would be higher. While investing in a portfolio with low-default-risk securities may be more likely to reduce investment volatility and the volatility of employer contributions, it also may be more likely to result in higher employer contributions or lower benefits.

Risk

The actuarial valuation results are dependent on a single set of assumptions; however, there is a risk that emerging results may differ significantly as actual experience proves to be different from the current assumptions.

We have not been engaged to perform a detailed analysis of the potential range of the impact of risk relative to the System's future financial condition but have included a brief discussion of some risks that may affect the System.

- Economic and Other Related Risks. Potential implications for the System due to the following economic effects (that were not reflected as of the valuation date) include:
  - Volatile financial markets and investment returns lower than assumed
  - High inflationary environment impacting salary increases
- Investment Risk (the risk that returns will be different than expected)

  The market value rate of return over the last seven years has ranged from a low of -11.37% to a high of 19.79%.
- Longevity Risk (the risk that mortality experience will be different than expected)

  The actuarial valuation includes an expectation of future improvement in life expectancy. Emerging plan experience that does not match these expectations will result in either an increase or decrease in the actuarially determined contribution.
- Contribution Risk (the risk that actual contributions will be different from actuarially determined contribution)

  Massachusetts General Law Chapter 32 requires payment of the actuarially determined contribution. If future experience matches current assumptions, we protect the unfunded actuarial accrual liability will be paid off by June 30, 2029.
- Demographic Risk (the risk that participant experience will be different than assumed)

  Examples of this risk include:
  - Actual retirements occurring earlier or later than assumed.
  - More or less active participant turnover than assumed.
  - Disability experience different than assumed.
  - Salary increases greater or less than assumed.
- There are external factors including legislative or financial reporting changes that could impact the System's funding and disclosure requirements. While we do not assume any changes in such external factors, it is important to understand that they could have significant consequences for the System.
- Actual Experience Over the Last Several Years

Section 2: Actuarial Valuation Results

Past experience can help demonstrate the sensitivity of key results to the System's actual experience. Since 2020:

- The non-investment gain(loss) has ranged from a loss of $1,243,418 to a gain of $802,337.
- The funded percentage on the actuarial value of assets has ranged from a low of 83.1% to a high of 93.2%.

Maturity Measures

- As pension plans mature, the cash needed to fulfill benefit obligations will increase over time. Therefore, cash flow projections and analysis should be performed to assure that the System's asset allocation is aligned to meet emerging pension liabilities.
- Currently the System has a non-active to active participant ratio of 1.28.

Section 3: Supplemental Information

Exhibit A: Table of plan demographics

Category	Year Ended December 31, 2023	Year Ended December 31, 2021	Change
Active participants in valuation:			
• Number	469	476	-1.5%
• Average age	46.6	47.1	-0.5
• Average years of service	10.7	10.6	0.1
• Average projected compensation	$68,519	$61,984	10.5%
• Account balances	28,260,365	26,208,484	7.8%
Inactive participants			
• Inactive vested participants	22	17	29.4%
• Inactive nonvested participants due a refund	246	188	30.9%
Retired participants:			
• Number in pay status	231	220	5.0%
• Average age	74.7	74.3	0.4
• Average monthly benefit	$2,961	$2,851	3.9%
Disabled participants:			
• Number in pay status	46	51	-9.8%
• Average age	70.0	69.3	0.7
• Average monthly benefit	$3,810	$3,661	4.1%
Beneficiaries:			
• Number in pay status	57	55	3.6%
• Average age	73.6	74.5	-0.9
• Average monthly benefit	$1,996	$1,623	23.0%

Exhibit B: Summary statement of income and expenses on a market value basis

Year Ended December 31, 2023 versus Year Ended December 31, 2022

Item	Income and Expenses	Assets as of YE 2023	Income and Expenses	Assets as of YE 2022
Net assets at market value at the beginning of the year		**$175,281,771**		**$202,060,280**
Contribution and other income:				
Employer contributions	$4,700,227		$4,700,227	
Employee contributions	3,137,830		3,017,281	
Total contribution income		$7,838,057		$7,717,508
Investment income:				
Investment income	$20,024,946		-$21,815,977	
Less investment fees	-926,655		-923,274	
Net investment income		$19,098,291		-$22,739,251
Total income available for benefits		$26,936,348		-$15,021,743
Less benefit payments and administrative expenses:				
Administrative expenses	-$341,150		-$327,801	
Pensions	-11,465,161		-11,349,309	
Net 3(8)(c) reimbursements	-22,009		-79,656	
Net benefit payments and administrative expenses		-$11,828,320		-$11,756,766
Change in market value of assets		**$15,108,028**		**-$26,778,509**
Net assets at market value at the end of the year		**$190,389,799**		**$175,281,771**

Section 4: Actuarial Valuation Basis

Exhibit 1: Actuarial assumptions, methods and models

Rationale for assumptions

Current data is reviewed in conjunction with each annual valuation. Assumption changes are listed at the end of this exhibit.

Net investment return

7.00%

The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation.

Salary increases

4.0% per year, with an allowance for wage inflation of 3.0%.

The salary increase assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgement.

Interest on employee contributions

3.50%

Administrative expenses

$375,000 for calendar 2024 increasing 3.0% per year.

The administrative expense assumption is based on information on expected expenses provided by the Retirement System.

Mortality rates

Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2021

Healthy Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2021

Disabled Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2021

The underlying tables reasonably reflect the projected mortality experience of the System as of the measurement date. These mortality tables were then adjusted to future years using generational projection to reflect future mortality improvement between the measurement date and those years.

Termination rates before retirement

Groups 1 and 2

Age	Mortality Male	Mortality Female	Disability
20	0.05%	0.02%	0.01%
25	0.06%	0.02%	0.01%
30	0.06%	0.02%	0.02%
35	0.07%	0.03%	0.03%
40	0.08%	0.04%	0.07%
45	0.13%	0.07%	0.10%
50	0.22%	0.12%	0.13%
55	0.36%	0.19%	0.16%
60	0.61%	0.27%	0.18%

Notes:
Mortality rates do not reflect generational projection.
80% of the disability rates shown represent accidental disability.
40% of the accidental disabilities will die from the same cause as the disability.
80% of the death rates shown represent accidental death.

Group 4

Age	Mortality Male	Mortality Female	Disability
20	0.05%	0.02%	0.05%
25	0.06%	0.02%	0.05%
30	0.06%	0.02%	0.10%
35	0.07%	0.03%	0.20%
40	0.08%	0.04%	0.25%
45	0.13%	0.07%	0.40%
50	0.22%	0.12%	0.76%
55	0.36%	0.19%	0.76%
60	0.61%	0.27%	0.65%

Notes:
Mortality rates do not reflect generational projection.
90% of the disability rates shown represent accidental disability.
40% of the accidental disabilities will die from the same cause as the disability.
90% of the death rates shown represent accidental death.

The mortality and disability rates were based on historical and current data, adjusted to reflect estimated future experience and professional judgment.

Withdrawal rates

Years of Service	Groups 1 and 2	Group 4
0	20.80%	15.00%
1	20.80%	15.00%
2	17.62%	12.50%
3	14.82%	12.50%
4	12.20%	10.00%
5	10.20%	10.00%
6	8.81%	7.50%
7	7.77%	7.50%
8	7.39%	5.00%
9	6.81%	5.00%
10	6.50%	6.00%
11	5.80%	6.00%
12	4.84%	6.00%
13	4.37%	6.00%
14	3.97%	6.00%
15	4.17%	6.00%
16	4.37%	6.00%
17	4.35%	6.00%
18	4.19%	6.00%
19	4.00%	6.00%
20 – 29	4.00%	0.00%
30+	0.00%	0.00%

The withdrawal rates were based on historical and current data, adjusted to reflect estimated future experience and professional judgment.

Retirement rates

Hired prior to April 2, 2012

Age	Groups 1 and 2 Male	Groups 1 and 2 Female	Group 4
45	- -	- -	4.43%
46	- -	- -	4.43%
47	- -	- -	4.36%
48	- -	- -	3.74%
49	- -	- -	3.98%
50	3.60%	10.19%	3.82%
51	4.05%	7.14%	3.51%
52	4.37%	5.62%	4.36%
53	3.66%	4.48%	5.27%
54	4.51%	4.88%	9.99%
55	4.77%	4.69%	11.10%
56	5.74%	5.18%	14.13%
57	6.32%	5.09%	12.92%
58	7.65%	5.52%	14.99%
59	9.17%	6.45%	16.79%
60	10.57%	7.74%	18.71%
61	12.24%	10.38%	20.73%
62	14.73%	11.68%	21.76%
63	17.77%	14.40%	33.38%
64	21.36%	17.08%	56.64%
65	26.15%	19.39%	100.00%
66	26.82%	19.59%	100.00%
67	25.00%	20.00%	100.00%
68	25.00%	20.00%	100.00%
69	25.00%	20.00%	100.00%
70	25.00%	25.00%	100.00%
71 – 76	25.00%	25.00%	100.00%
77 – 79	35.00%	25.00%	100.00%
80	100.00%	100.00%	100.00%

Hired after April 2, 2012

Age	Groups 1 and 2 Male	Groups 1 and 2 Female	Group 4
50	- -	- -	1.91%
51	- -	- -	1.76%
52	- -	- -	4.36%
53	- -	- -	2.11%
54	- -	- -	2.66%
55	- -	- -	3.70%
56	- -	- -	10.60%
57	- -	- -	19.38%
58	- -	- -	14.99%
59	- -	- -	11.19%
60	4.77%	4.69%	9.36%
61	5.74%	5.18%	15.55%
62	6.32%	5.09%	17.41%
63	7.65%	5.52%	26.70%
64	9.17%	6.45%	47.20%
65	10.57%	7.74%	25.00%
66	12.24%	10.38%	30.00%
67	14.73%	11.68%	100.00%
68	17.77%	14.40%	100.00%
69	21.36%	17.08%	100.00%
70	26.15%	19.39%	100.00%
71 – 76	26.82%	19.59%	100.00%
77 – 79	25.00%	20.00%	100.00%
80	100.00%	100.00%	100.00%

The retirement rates were based on historical and current data, adjusted to reflect estimated future experience and professional judgment.

Retirement age for inactive vested participants

55 for participants hired prior to April 2, 2012. For participants hired April 2, 2012 or later, 60 for Group 1, 55 for Group 2 and 50 for Group 4.

The retirement age for inactive vested participants was based on historical and current data, estimated future experience and professional judgment.

Unknown data for participants

Same as those exhibited by participants with similar characteristics.

Family composition

80% of participants are assumed to be married. Females are assumed to be three years younger than their male spouses.

Benefit election

All participants are assumed to elect Option A. The benefit election reflects the fact that all benefit options are actuarially equivalent.

Total service

Total creditable service reported in the data.

Net 3(8)(c) liability

No liability is valued for benefits paid to or received from other municipal systems.

Actuarial value of assets

Market value of assets as reported in the System's Annual Statement less unrecognized return in each of the last four years. Unrecognized return is equal to the difference between the actual market value return and the expected market value return and is recognized over a four-year period, further adjusted, if necessary, to be within 10% of the market value.

Actuarial cost method

Entry Age Normal Actuarial Cost Method. Entry Age is the attained age of the participant less Total Service as defined above. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary. Normal Cost is determined using the plan of benefits applicable to each participant.

Models

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

Justification for change in actuarial assumptions

Based on past experience and future expectations, the following actuarial assumption was changed as of January 1, 2024:

- The administrative expense assumption was increased from $320,000 for calendar year 2022 to $375,000 for calendar year 2024.

Exhibit 2: Summary of plan provisions

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

Plan year

January 1 through December 31

Plan status

Ongoing

Retirement benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

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

Age Last Birthday at Date of Retirement

Percent	Group 1	Group 2	Group 4
2.5	65 or over	60 or over	55 or over
2.4	64	59	54
2.3	63	58	53
2.2	62	57	52
2.1	61	56	51
2.0	60	55	50
1.9	59	--	49
1.8	58	--	48
1.7	57	--	47
1.6	56	--	46
1.5	55	--	45

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

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

For Members with Less Than 30 Years of Creditable Service or Greater Age Last Birthday at Date of Retirement

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

For Members with 30 Years of Creditable Service or Greater Age Last Birthday at Date of Retirement

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

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

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

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

Employee contributions

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

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

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

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

Retirement benefits (superannuation)

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

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

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

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

Ordinary disability benefit

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental disability benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of $500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death.

Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of $12,000 per year if the member dies for a reason unrelated to cause of disability.

"Heart And Lung Law" and cancer presumption

Any case of hypertension or heart disease resulting in total or partial disability or death to a uniformed fireman, permanent member of a police department, or certain employees of a county correctional facility is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. Any case of disease of the lungs or respiratory tract resulting in total disability or death to a uniformed fireman is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. There is an additional presumption for uniformed firemen that certain types of cancer are job-related if onset occurs while actively employed or within five years of retirement.

Options

Members may elect to receive a full retirement allowance payable for life under Option A. Under Option B a member may elect to receive a lower monthly allowance in exchange for a guarantee that at the time of death any contributions not expended for annuity payments will be refunded to the beneficiary. Option C allows the member to take a lesser retirement allowance in exchange for providing a survivor with two-thirds of the lesser amount. Option C pensioners will have benefits converted from a reduced to a full retirement if the beneficiary predeceases the retiree.

Post-retirement benefits

The Board has adopted the provisions of Section 51 of Chapter 127 of the Acts of 1999, which provide that the Retirement Board may approve an annual COLA in excess of the Consumer Price Index but not to exceed a 3% COLA on the first $15,000 of a retirement allowance. Cost-of-living increases granted prior to July 1, 1998 are reimbursed by the Commonwealth and not reflected in this report.

Changes in plan provisions

The Board adopted a one-time increase in the COLA from 3% to 5% effective July 1, 2022. The January 1, 2022 actuarial valuation reflected an increase in the COLA base from $15,000 to $18,000, as approved by the Board but subject to approval by Dedham's Town Meeting. Subsequent to the issuing of that report, Dedham's Town Meeting did not approve that increase. As a result, a COLA base of $15,000 is reflected in this valuation.

Appendix A: Definition of Pension Terms

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

Term	Definition
Actuarial accrued liability for actives	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial accrued liability for retirees and beneficiaries	Actuarial Present Value of lifetime benefits to existing retirees and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial cost method	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.
Actuarial gain or loss	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield actuarial liabilities that are larger than projected.
Actuarially equivalent	Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.
Actuarial present value	The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is: Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.) Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, and Discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Appendix A: Definition of Pension Terms

Term	Definition
Actuarial present value of future benefits	The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund of member contributions or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
Actuarial valuation	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan, as well as Actuarially Determined Contributions.
Actuarial value of assets	The value of the System's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the Actuarially Determined Contribution.
Actuarially determined	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the System.
Actuarially determined contribution	The employer's contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the System's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.
Amortization method	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization payment	The portion of the pension plan contribution, or ADC, that is intended to pay off the Unfunded Actuarial Accrued Liability.
Assumptions or actuarial assumptions	The estimates upon which the cost of the System is calculated, including: **Investment return —** the rate of investment yield that the System will earn over the long-term future; **Mortality rates —** the rate or probability of death at a given age for employees and retirees; **Retirement rates —** the rate or probability of retirement at a given age or service; **Disability rates —** the rate or probability of disability retirement at a given age; **Withdrawal rates —** the rate or probability at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement; **Salary increase rates —** the rates of salary increase due to inflation, real wage growth and merit and promotion increases.

Appendix A: Definition of Pension Terms

Term	Definition
Closed amortization period	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 20 years, it is 19 years at the end of one year, 18 years at the end of two years, etc. See Open Amortization Period.
Decrements	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or withdrawal.
Defined benefit plan	A retirement plan in which benefits are defined by a formula based on the member's compensation, age and/or years of service.
Defined contribution plan	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer normal cost	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Experience study	A periodic review and analysis of the actual experience of the System that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified based on recommendations from the Actuary.
Funded ratio	The ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). Plans sometimes also calculate a market funded ratio, using the Market Value of Assets (MVA), rather than the AVA.
GASB 67 and GASB 68	Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.
Investment return	The rate of earnings of the System from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.
Net Pension Liability (NPL)	The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.
Normal cost	The portion of the Actuarial Present Value of Future Benefits and expenses, if applicable, allocated to a valuation year by the Actuarial Cost Method. Any payment with respect to an Unfunded Actuarial Accrued Liability is not part of the Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of member contributions and employer Normal Cost unless otherwise specifically stated.
Open amortization period	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in each future year in determining the Amortization Period.

Appendix A: Definition of Pension Terms

Term	Definition
Plan Fiduciary Net Position	Market value of assets.
Service costs	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
Total Pension Liability (TPL)	The actuarial accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.
Unfunded actuarial accrued liability	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative, in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus or an Overfunded Actuarial Accrued Liability.
Valuation date or actuarial valuation date	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Benefits is determined. The expected benefits to be paid in the future are discounted to this date.