

# Newton Contributory Retirement System

**Actuarial Valuation and Review as of January 1, 2021**



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

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July 8, 2021

Retirement Board  
Newton Contributory Retirement System  
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Newton Centre, MA 02459-1449

Dear Board Members:

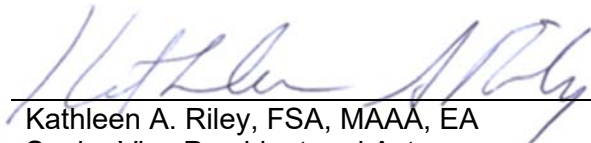
We are pleased to submit this Actuarial Valuation and Review as of January 1, 2021. It summarizes the actuarial data used in the valuation, analyzes the preceding year's experience, and establishes the funding requirements for fiscal 2022 and later years.

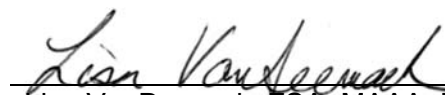
This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Retirement Board to assist in administering the Retirement System. The census information and financial information on which our calculations were based was prepared by the staff of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

The actuarial calculations were directed under the supervision of Lisa VanDermark, FSA, MAAA, EA. She is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of her knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in her opinion, the assumptions as approved by the Retirement Board are reasonably related to the experience of and the expectations for the Newton Contributory Retirement System.

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

Sincerely,  
Segal

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

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

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# Section 1: Actuarial Valuation Summary

## Purpose and basis

This report was prepared by Segal to present a valuation of the System as of January 1, 2021. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The measurements shown in this actuarial valuation may not be applicable for other purposes. In particular, the measures herein are not necessarily appropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The contribution requirements presented in this report are based on:

- The benefit provisions of Massachusetts General Law Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of December 31, 2020, provided by the staff of the Retirement System;
- The assets of the System as of December 31, 2020, 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, 2020 for the Retirement System is provided in a separate report.

## Section 1: Actuarial Valuation Summary

### Valuation highlights

1. 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 a payment on the principal balance. The funding policy adopted by the Newton Contributory Retirement System meets this standard and funds the unfunded actuarial accrued liability by June 30, 2030.
2. The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 57.37%, compared to the prior valuation funded ratio of 54.94%. 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 60.00%, compared to 56.10% as of the prior valuation date. This improvement in the funded ratios is primarily due to the investment gain in 2020, partially offset by demographic experience losses. These measurements are not necessarily appropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligation or the need for or the amount of future contributions.
3. During the plan year ending December 31, 2020, the rate of return on the market value of assets was 11.55%. The rate of return on the actuarial value of assets (which gradually recognizes market fluctuations) for the plan year ending December 31, 2020 was 8.91%. The actuarial value of assets as of December 31, 2020 was \$420.4 million, or 95.62% of the market value of assets of \$439.7 million (as reported in the Annual Statement). As of December 31, 2019, the actuarial value of assets was 97.94% of the market value of assets.
4. The investment experience in the past years has only been partially recognized in the actuarial value of assets. As the deferred gain of \$19.3 million is recognized in future years, the cost of the System is likely to decrease unless the net gain is offset by future experience. This implies that earning the assumed rate of investment return (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years. The deferred investment gains are not recognized in the projection of the unfunded actuarial accrued liability in the funding schedule shown in *Section 2*.
5. With this valuation we have increased the administrative expense assumption from \$415,000 to \$450,000. We have also made minor changes in the retirement assumption for employees hired on or after April 2, 2012.
6. The unfunded liability was expected to decrease by \$5.7 million from \$317.0 million as of January 1, 2020 to \$311.3 million as of January 1, 2021. The actual unfunded liability of \$312.4 million as of January 1, 2021 is \$1.1 million higher than expected. The increase is primarily due to demographic experience losses, partially offset by the investment gain in 2020.
7. In the funding schedule included in this report, the fiscal 2022 appropriation has been set equal to the previously budgeted amount of \$37,269,367. The funding schedule included in this report fully funds the System by June 30, 2030 if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions. The appropriation increases 9.60% per year.

## Section 1: Actuarial Valuation Summary

8. 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 System in *Section 2*. A more detailed assessment would provide the Retirement Board with a better understanding of the inherent risks.

## Section 1: Actuarial Valuation Summary

### Summary of key valuation results

		2021	2020
<b>Contributions for fiscal year beginning July 1:</b>	• Actuarially Determined Contributions for fiscal year 2022 and 2021	\$37,269,367	\$32,515,631
	• Actuarially Determined Contributions for fiscal year 2023 and 2022	40,847,226	37,269,367
<b>Actuarial accrued liability for plan year beginning January 1:</b>	• Retired participants and beneficiaries	\$425,472,486	\$407,894,063
	• Inactive vested participants	5,274,375	3,968,912
	• Inactive participants due a refund of employee contributions	4,418,104	3,859,520
	• Active participants	297,643,150	287,827,561
	• Total	732,808,115	703,550,056
	• Normal cost including administrative expenses and allowance for net 3(8)(c) payments for plan year beginning January 1	16,106,428	15,536,201
<b>Assets for plan year beginning January 1:</b>	• Market value of assets (MVA)	\$439,660,969	\$394,676,536
	• Actuarial value of assets (AVA)	420,396,000	386,550,933
	• Actuarial value of assets as a percentage of market value of assets	95.62%	97.94%
<b>Funded status for plan year beginning January 1:</b>	• Unfunded actuarial accrued liability on market value of assets	\$293,147,146	\$308,873,520
	• Funded percentage on MVA basis	60.00%	56.10%
	• Unfunded actuarial accrued liability on actuarial value of assets	\$312,412,115	\$316,999,123
	• Funded percentage on AVA basis	57.37%	54.94%
<b>Key assumptions:</b>	• Net investment return	7.25%	7.25%
	• Long-term wage inflation rate	2.75%	2.75%
<b>Demographic data for plan year beginning January 1:</b>	• Number of retired participants and beneficiaries	1,337	1,339
	• Number of inactive vested participants	43	34
	• Number of inactive participants due a refund of employee contributions	512	514
	• Number of active participants	1,570	1,611
	• Total payroll <sup>1</sup>	\$107,216,124	\$102,912,637
	• Average payroll	68,291	63,881

<sup>1</sup> Payroll figures are for the prior year and reflect annualized salaries for participants hired during the year. Calendar year 2020 payroll figures were increased by 7.7% for superior officers, 1.5% for Local 25 teamsters, 5.6% for parking control clerks and patrolmen and 3.5% for Local 3092 City Hall associates and inspectors, engineers, and Local 2443 foremen to reflect unsettled bargaining contracts. Figures were decreased by 1.5% for firemen, 0.2% for nurses, 2.9% for Local 25 teamsters, 0.6% for school clerical staff and 1.0% for custodians to reflect retroactive payments. Figures were also decreased for superior officers based on individual retroactive payment information provided by the staff of the Retirement System. Calendar year 2019 payroll figures were increased by 1.0% for nurses and custodians, 1.7% for teacher's aides, 2.5% for firemen, 3.0% for parking control clerks, 4.6% for patrolmen, and 14.6% for superior officers to reflect unsettled bargaining contracts. Figures were also decreased by 1.0% for Local 25 teamsters to reflect retroactive payments.

## Section 1: Actuarial Valuation Summary

### Important information about actuarial valuations

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

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

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



## Section 1: Actuarial Valuation Summary

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

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

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

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

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

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

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

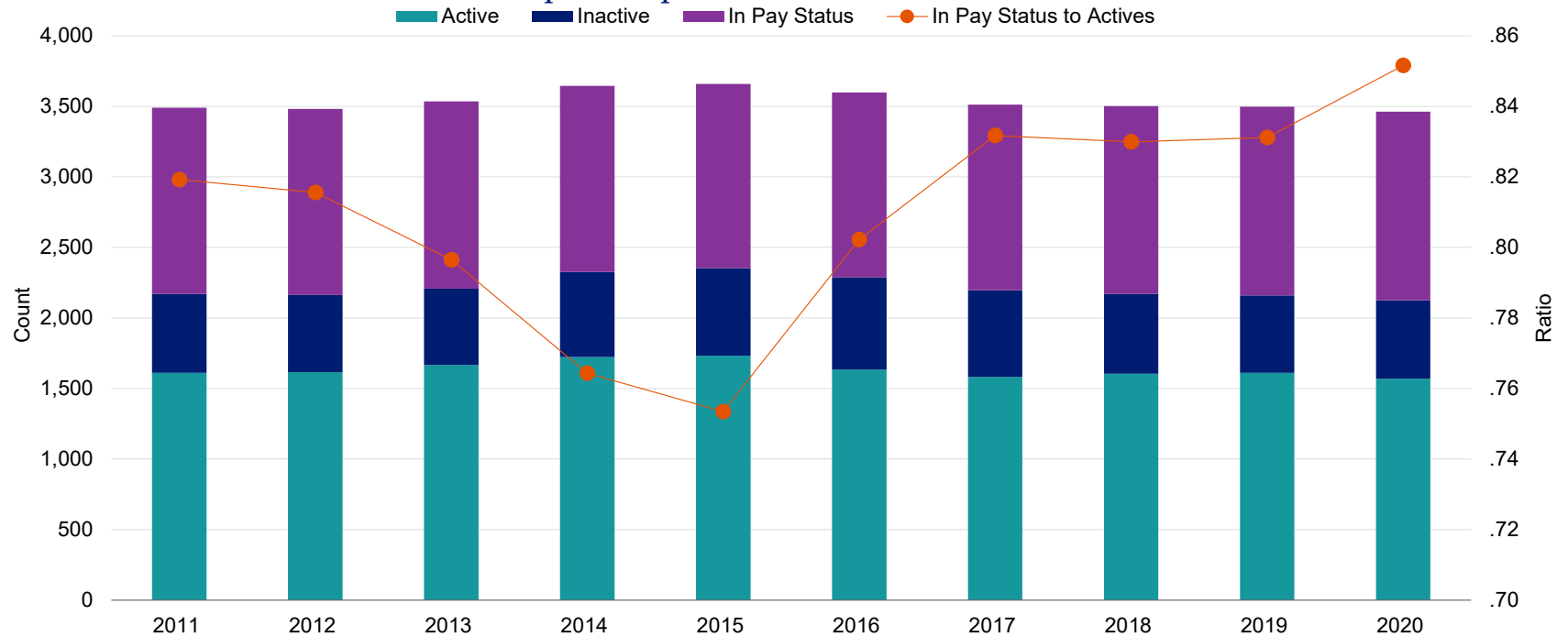
# Section 2: Actuarial Valuation Results

## Participant data

This section presents a summary of significant statistical data on covered participants.

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

Participant Population: 2011 – 2020



In Pay Status	1,319	1,318	1,327	1,317	1,305	1,310	1,315	1,332	1,339	1,337
Inactive <sup>1</sup>	561	547	542	604	622	655	616	565	548	555
Active	1,610	1,616	1,666	1,723	1,732	1,633	1,581	1,605	1,611	1,570
Ratio	0.82	0.82	0.80	0.76	0.75	0.80	0.83	0.83	0.83	0.85

<sup>1</sup> Includes terminated participants due a refund of employee contributions.

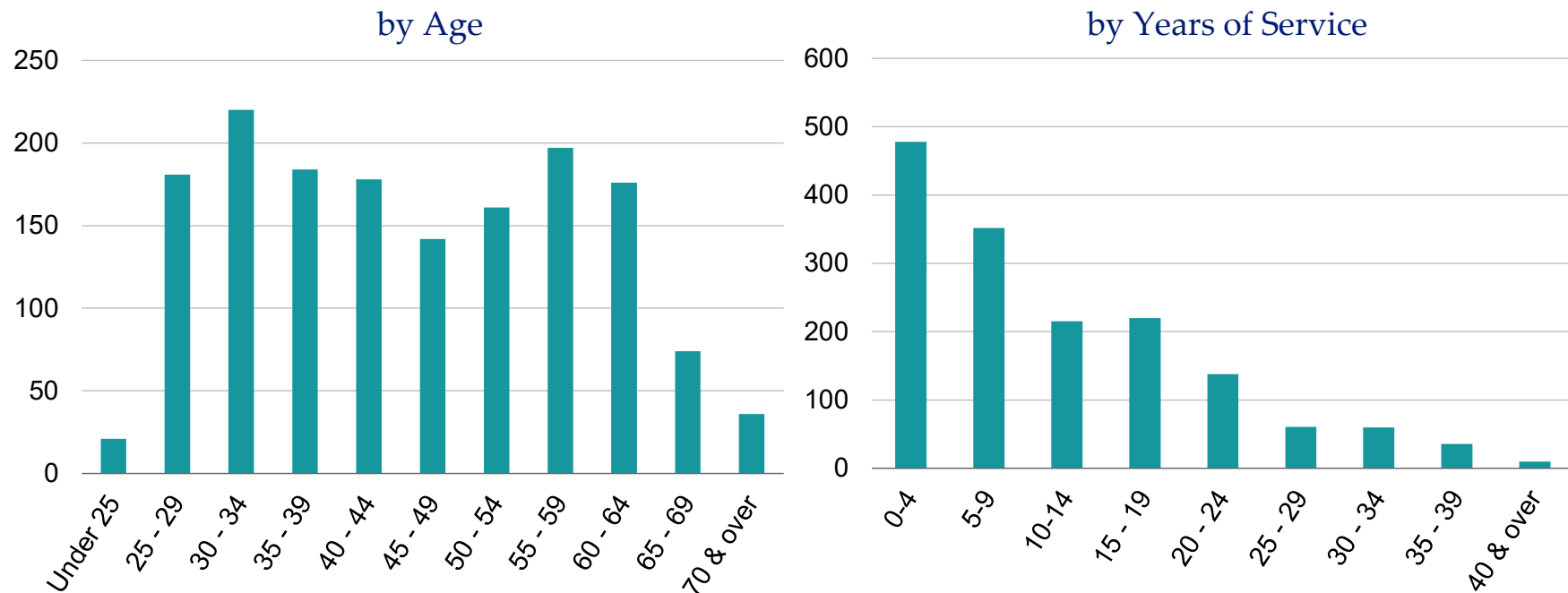
## Section 2: Actuarial Valuation Results

### Active participants

As of December 31,	2020	2019	Change
Active participants	1,570	1,611	-2.5%
Average age	46.0	46.0	0.0
Average years of service	11.8	11.8	0.0
Average payroll	\$68,291	\$63,881	6.9%

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

#### Distribution of Active Participants as of December 31, 2020



### Inactive participants

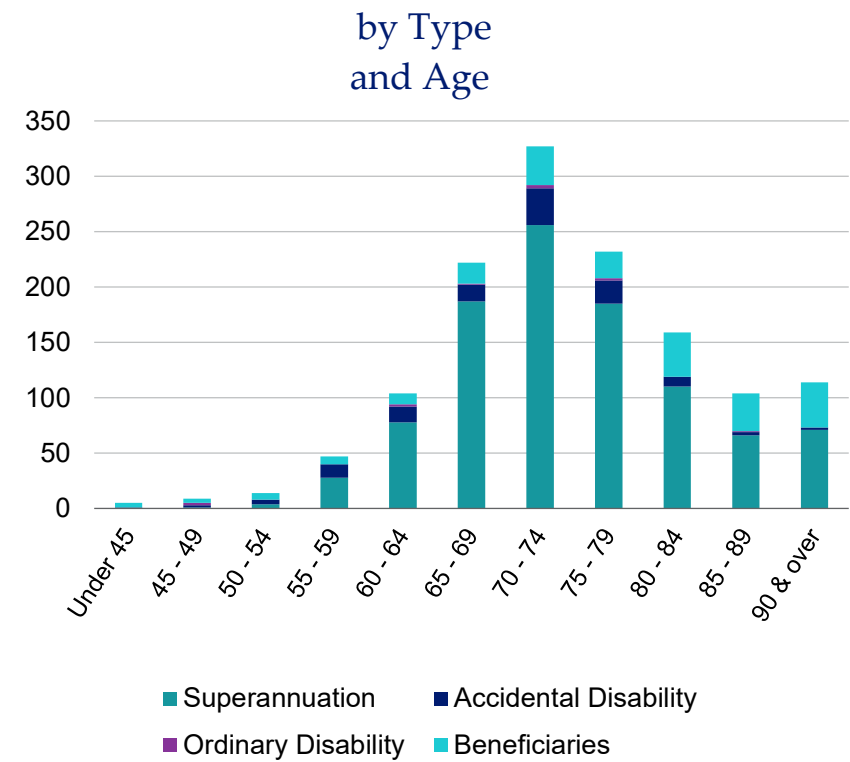
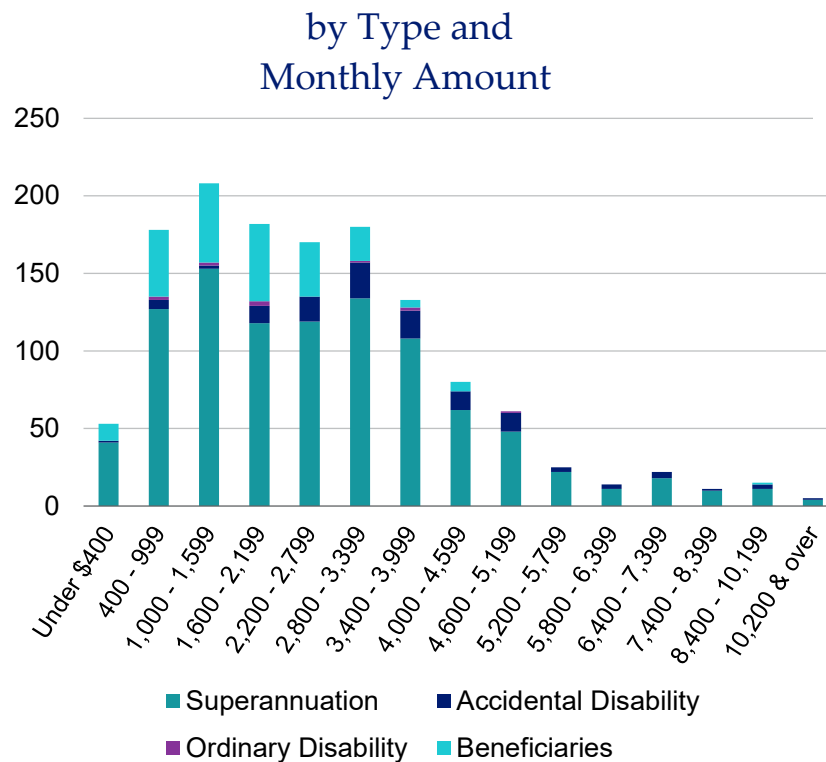
In this year's valuation, there were 43 participants with a vested right to a deferred or immediate vested benefit and 512 participants entitled to a return of their employee contributions.

## Section 2: Actuarial Valuation Results

### Retired participants and beneficiaries

As of December 31,	2020	2019	Change
Retirees	1,113	1,100	1.2%
Beneficiaries	224	239	-6.3%
Average age	74.4	74.5	-0.1
Average amount	\$2,630	\$2,527	4.1%
Total monthly amount <sup>1</sup>	\$3,516,243	\$3,383,962	3.9%

Distribution of Retired Participants and Beneficiaries as of December 31, 2020



<sup>1</sup> Excluding COLAs reimbursed by the Commonwealth.

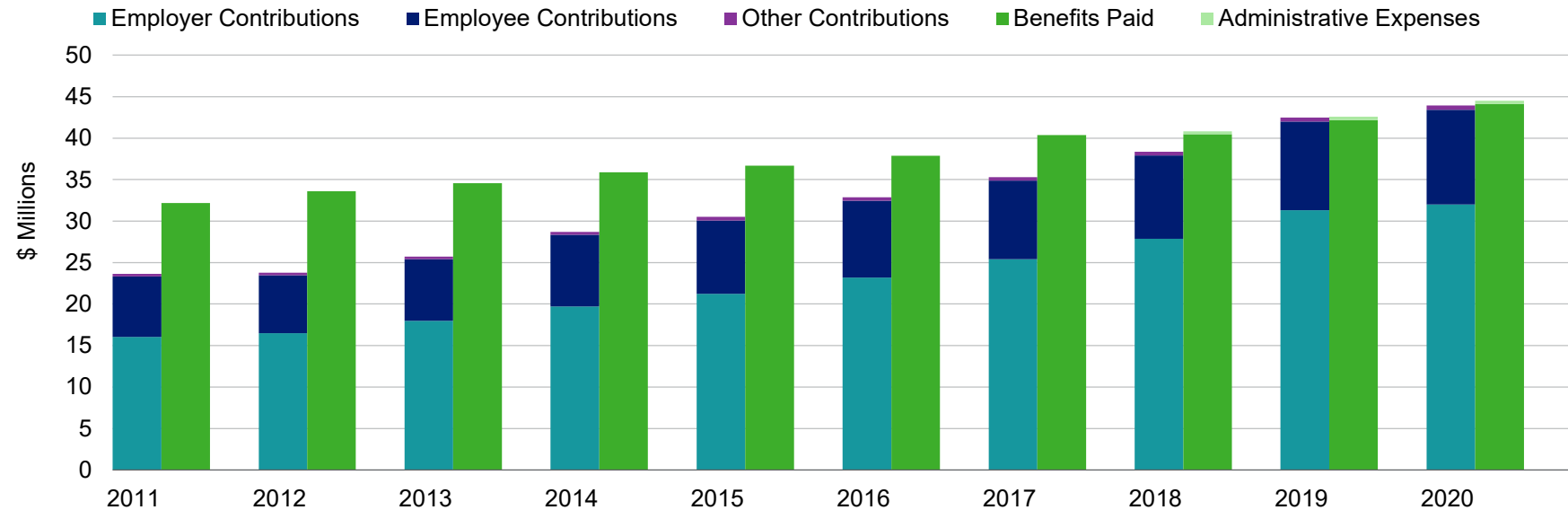
## Section 2: Actuarial Valuation Results

### Financial information

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

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

#### Comparison of Contributions with Benefits and Expenses for Years Ended December 31, 2011 – 2020



Note:

Excludes administrative expenses and administrative expense appropriation prior to 2018.

## Section 2: Actuarial Valuation Results

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

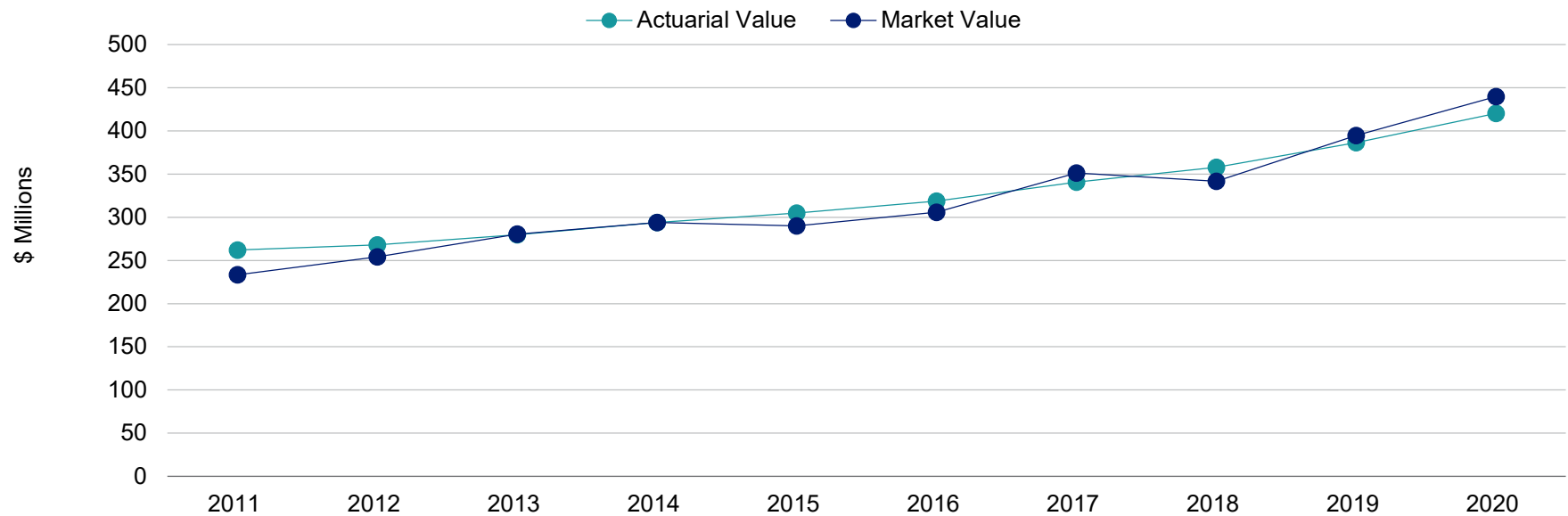
### Determination of Actuarial Value of Assets for Year Ended December 31, 2020

<b>1</b>	Actuarial value of assets as of December 31, 2019	\$386,550,933
<b>2</b>	Contributions less benefit payments and expenses	-580,489
<b>3</b>	Expected investment income on <b>(1)</b> and <b>(2)</b>	<u>28,003,900</u>
<b>4</b>	Preliminary actuarial value of assets: <b>(1) + (2) + (3)</b>	\$413,974,344
<b>5</b>	Market value of assets, December 31, 2020	<u>439,660,969</u>
<b>6</b>	Adjustment toward market value: 25% of <b>[(5) - (4)]</b>	\$6,421,656
<b>7</b>	Adjustment to be within 20% corridor	0
<b>8</b>	Final actuarial value of assets as of December 31, 2020: <b>(4) + (6) + (7)</b>	420,396,000
<b>9</b>	Actuarial value as a percentage of market value: <b>(8) ÷ (5)</b>	95.62%
<b>10</b>	Amount deferred for future recognition: <b>(5) - (8)</b>	\$19,264,969

## Section 2: Actuarial Valuation Results

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

Actuarial Value of Assets vs. Market Value of Assets



Market Value <sup>1</sup>	\$233.34	\$254.18	\$280.35	\$293.92	\$289.93	\$305.87	\$351.18	\$341.84	\$394.68	\$439.66
Actuarial Value <sup>1</sup>	262.11	268.09	279.85	293.84	304.94	318.75	340.84	357.99	386.55	420.40

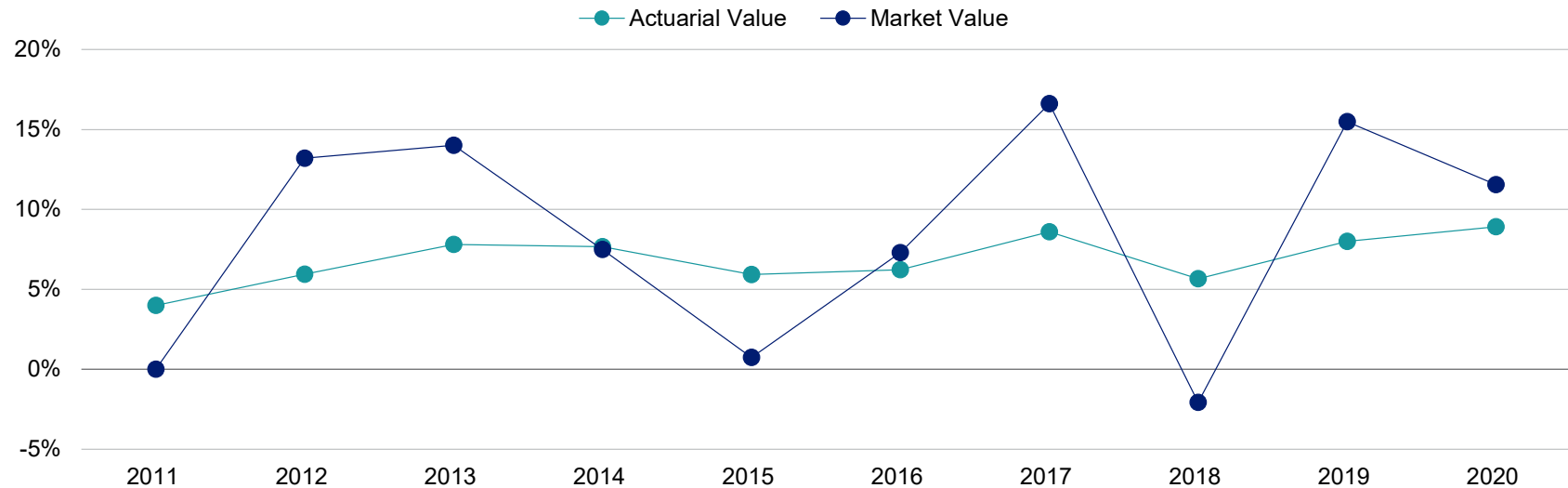
<sup>1</sup> In \$ millions

## Section 2: Actuarial Valuation Results

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the actual market value investment return for the last 10 years, including averages over select time periods.

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

Market and Actuarial Rates of Return for Years Ended December 31, 2011 - 2020



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
■ MVA	0.01%	13.20%	14.01%	7.50%	0.74%	7.30%	16.61%	-2.07%	15.49%	11.55%
■ AVA	4.00%	5.95%	7.81%	7.66%	5.93%	6.23%	8.59%	5.67%	8.01%	8.91%
Assumed rate	N/A	N/A	7.75%	7.65%	7.65%	7.50%	7.25%	7.25%	7.25%	7.25%

Average Rates of Return	Actuarial Value	Market Value
Most recent five-year average return:	7.54%	9.70%
Most recent eight-year average return:	7.40%	8.84%



## Section 2: Actuarial Valuation Results

### Actuarial experience

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

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience. If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The net experience loss during the year is \$1,103,322, which includes \$6,421,656 from investment gains and \$7,524,978 in losses from all other sources. The net experience variation from individual sources other than investments was 1.0% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

#### Actuarial Experience for Year Ended December 31, 2020

<b>1</b>	Net gain from investments	\$6,421,656
<b>2</b>	Net gain from administrative expenses	67,293
<b>3</b>	Net loss from other experience	<u>-7,592,271</u>
<b>4</b>	Net experience loss: <b>1 + 2 + 3</b>	<b>-1,103,322</b>

## Section 2: Actuarial Valuation Results

### Investment experience

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the System's investment policy. The rate of return on the market value of assets was 11.55% for the year ended December 31, 2020.

For valuation purposes, the assumed rate of return on the actuarial value of assets is 7.25%. The actual rate of return on an actuarial basis for the 2020 plan year was 8.91%. Since the actual return for the year was greater than the assumed return, the System experienced an actuarial gain during the year ended December 31, 2020 with regard to its investments.

#### Investment Experience

		Year Ended December 31, 2020	
		Market Value	Actuarial Value
<b>1</b>	Net investment income	\$45,564,922	\$34,425,556
<b>2</b>	Average value of assets	394,386,292	386,260,688
<b>3</b>	Rate of return: <b>1 ÷ 2</b>	11.55%	8.91%
<b>4</b>	Assumed rate of return	7.25%	7.25%
<b>5</b>	Expected investment income: <b>2 x 4</b>	\$28,593,006	\$28,003,900
<b>6</b>	Actuarial gain/(loss): <b>1 - 5</b>	16,971,916	6,421,656

## Section 2: Actuarial Valuation Results

### Non-investment experience

#### Administrative expenses and net 3(8)(c) allowance

Administrative expenses plus net 3(8)(c) payments for the year ended December 31, 2020 totaled \$552,256, as compared to the assumption of \$615,000. Based on information provided by the staff of the Retirement System, we have increased the administrative expense assumption from \$415,000 to \$450,000. The allowance for net 3(8)(c) payments is unchanged at \$200,000.

#### Mortality experience

Mortality experience (more or fewer than expected deaths) yields actuarial gains or losses.

The average number of deaths for nondisabled pensioners over the past three years was 42.0 per year compared to 37.3 projected deaths per year. The average number of deaths for disabled pensioners over the past three years was 6.0 per year compared to 4.1 projected deaths per year. The average number of deaths for beneficiaries over the past three years was 17.0 per year compared to 15.0 projected deaths per year.

#### Other experience

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

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

The net loss from this other experience for the year ended December 31, 2020 amounted to \$7,592,271, which is 1.0% of the actuarial accrued liability.

#### Liability Changes Due to Demographic Experience for Year Ended December 31, 2020

Loss due to salary increases greater than expected for continuing actives	-\$7,876,900
Miscellaneous experience gain	<u>284,629</u>
Total	-\$7,592,271

## Section 2: Actuarial Valuation Results

### Actuarial assumptions

With this valuation we have increased the administrative expense assumption from \$415,000 to \$450,000. We have also made minor changes in the retirement assumption for employees hired on or after April 2, 2012

The assumptions increased the Actuarial Accrued Liability by \$37,295 and the Normal Cost by \$42,613.

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

### Plan provisions

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

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

## Section 2: Actuarial Valuation Results

### Development of Unfunded Actuarial Accrued Liability for Year Ended December 31, 2020

1	Unfunded actuarial accrued liability at beginning of year	\$316,999,123
2	Normal cost at beginning of year	15,536,201
3	Total contributions	<b>-43,931,284</b>
4	Interest on 1, 2 & 3	<u>22,667,458</u>
5	Expected unfunded actuarial accrued liability	\$311,271,498
6	Changes due to:	
	• Net gain from investments	<b>-6,421,656</b>
	• Net loss from other experience	7,524,978
	• Changes in assumptions	<u>37,295</u>
	Total changes	<u>\$1,140,617</u>
7	Unfunded actuarial accrued liability at end of year	\$312,412,115

## Section 2: Actuarial Valuation Results

### Actuarially determined contribution

The actuarially determined contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. For fiscal 2022, the Actuarially Determined Contribution has been set equal to the previously budgeted amount of \$37,269,367 determined with the prior valuation.

The funding schedule included in this report fully funds the System by June 30, 2030 if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions. The appropriation increases 9.60% per year.

#### Actuarially Determined Contribution

	2021		2020	
	Amount	% of Projected Payroll	Amount	% of Projected Payroll
<b>1</b> Total normal cost	\$15,456,428	13.83%	\$14,921,201	13.91%
<b>2</b> Administrative expenses	650,000	0.58%	615,000	0.57%
<b>3</b> Expected employee contributions	<u>-11,155,066</u>	<u>-9.98%</u>	<u>-10,591,974</u>	<u>-9.88%</u>
<b>4</b> Employer normal cost: <b>(1) + (2) + (3)</b>	\$4,951,362	4.43%	\$4,944,227	4.61%
<b>5</b> Actuarial accrued liability	\$732,808,115		\$703,550,056	
<b>6</b> Actuarial value of assets	<u>420,396,000</u>		<u>386,550,933</u>	
<b>7</b> Unfunded actuarial accrued liability: <b>(5) - (6)</b>	\$312,412,115		\$316,999,123	
<b>8</b> Employer normal cost projected to July 1, , adjusted for timing	5,048,341	4.46%	5,041,066	4.64%
<b>9</b> Projected unfunded actuarial accrued liability	323,538,910		328,289,288	
<b>10</b> Payment on unfunded actuarial accrued liability, adjusted for timing	<u>32,221,025</u>	28.45%	<u>27,474,565</u>	25.27%
<b>11</b> Actuarially Determined Contribution: <b>(8) + (10)</b>	\$37,269,367	32.90%	\$32,515,631	29.91%
<b>12</b> Projected payroll as of July 1	\$113,271,976		\$108,709,195	

#### Notes:

Actuarially Determined Contributions are assumed to be paid on August 1.

Actuarially Determined Contribution for fiscal 2022 set equal to the budgeted amount determined with the prior valuation.

Actuarially Determined Contribution for fiscal 2021 set equal to \$32,515,631, as determined by the Retirement Board.

## Section 2: Actuarial Valuation Results

### Funding Schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Unfunded Liability	(4) Actuarially Determined Contribution (ADC): (2) + (3)	(5) Total Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(6) Percent Increase in ADC Over Prior Year
2022	\$5,048,341	\$32,221,026	\$37,269,367	\$323,538,910	--
2023	5,211,460	35,635,766	40,847,226	312,639,405	9.60%
2024	5,379,769	39,388,790	44,768,559	297,308,676	9.60%
2025	5,553,432	43,512,909	49,066,341	276,864,759	9.60%
2026	5,732,619	48,044,091	53,776,710	250,541,265	9.60%
2027	5,917,502	53,021,772	58,939,274	217,477,888	9.60%
2028	6,108,259	58,489,185	64,597,444	176,709,900	9.60%
2029	6,305,077	64,493,722	70,798,799	127,156,535	9.60%
2030	6,508,144	68,003,628	74,511,772	67,608,138	5.24%
2031	6,717,659	0	6,717,659	0	-90.98%

**Notes:**

Fiscal 2022 Actuarially Determined Contribution set equal to budgeted amount.

Actuarially Determined Contributions are assumed to be paid on August 1.

Item (2) reflects 2.75% growth in payroll, as well as a 0.15% adjustment to total normal cost to reflect the effects of mortality improvements due to the generational mortality assumption.

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

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

## Section 2: Actuarial Valuation Results

### Risk

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

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

A more detailed assessment would provide the Retirement Board with a better understanding of the risks inherent in the System. This assessment may include scenario testing, sensitivity testing, stress testing and stochastic modeling.

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

The market value rate of return over the last 10 years has ranged from a low of -2.07% to a high of 16.61%.

- 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 requires payment of the actuarially determined contribution. If future experience matches the current assumptions, we project the unfunded actuarial accrued liability will be paid off in 9 years.

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

Examples of this risk include:

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

- Actual Experience and Implications for the Future

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

The investment gain(loss) has ranged from a loss of \$32.6 million to a gain of \$28.2 million.



## Section 2: Actuarial Valuation Results

The non-investment gain(loss) for a year has ranged from a loss of \$15.6 million to a gain of \$4.1 million.

The funded percentage on the actuarial value of assets has ranged from a low of 50.8% as of January 1, 2015 to a high of 57.4% as of January 1, 2021.

- Maturity Measures

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

In 2020, benefits paid plus administrative expenses exceeded contributions received by \$0.6 million. As the System matures, more cash may be needed from the investment portfolio to meet benefit payments.

# Section 3: Supplemental Information

## Exhibit A: Table of Plan Demographics

Category	Year Ended December 31		Change From Prior Year
	2020	2019	
<b>Active participants:</b>			
• Number	1,570	1,611	-2.5%
• Average age	46.0	46.0	0.0
• Average years of service	11.8	11.8	0.0
• Total payroll <sup>1</sup>	\$107,216,124	\$102,912,637	4.2%
• Average payroll	68,291	63,881	6.9%
• Total account balances	98,137,069	95,415,345	2.9%
<b>Inactive participants:</b>			
Inactive participants with a vested right to a deferred or immediate benefit	43	34	26.5%
Inactive participants due a refund of employee contributions	512	514	-0.4%
<b>Retired participants:</b>			
• Number in pay status	986	971	1.5%
• Average age	74.4	74.3	0.1
• Average monthly benefit	\$2,711	\$2,617	3.6%
<b>Disabled participants:</b>			
• Number in pay status	127	129	-1.6%
• Average age	69.4	69.1	0.3
• Average monthly benefit	\$3,505	\$3,376	3.8%
<b>Beneficiaries:</b>			
• Number in pay status	224	239	-6.3%
• Average age	77.3	78.5	-1.2
• Average monthly benefit	\$1,775	\$1,703	4.2%

<sup>1</sup> Payroll figures are for the prior year and reflect annualized salaries for participants hired during the year. Calendar year 2020 payroll figures were increased by 7.7% for superior officers, 1.5% for Local 25 teamsters, 5.6% for parking control clerks and patrolmen and 3.5% for Local 3092 City Hall associates and inspectors, engineers, and Local 2443 foremen to reflect unsettled bargaining contracts. Figures were decreased by 1.5% for firemen, 0.2% for nurses, 2.9% for Local 25 teamsters, 0.6% for school clerical staff and 1.0% for custodians to reflect retroactive payments. Figures were also decreased for superior officers based on individual retroactive payment information provided by the staff of the Retirement System. Calendar year 2019 payroll figures were increased by 1.0% for nurses and custodians, 1.7% for teacher's aides, 2.5% for firemen, 3.0% for parking control clerks, 4.6% for patrolmen, and 14.6% for superior officers to reflect unsettled bargaining contracts. Figures were also decreased by 1.0% for Local 25 teamsters to reflect retroactive payments.

## Section 3: Supplemental Information

### Exhibit B: Participants in Active Service as of December 31, 2020 by Age, Years of Service, and Average Payroll

Age	Years of Service									
	Total	0-4	5-9	10-14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & over
Under 25	21	21	--	--	--	--	--	--	--	--
	\$49,474	\$49,474	--	--	--	--	--	--	--	--
25 - 29	181	152	29	--	--	--	--	--	--	--
	\$45,548	\$43,996	\$53,681	--	--	--	--	--	--	--
30 - 34	220	102	99	19	--	--	--	--	--	--
	\$63,613	\$56,276	\$66,143	\$89,820	--	--	--	--	--	--
35 - 39	184	47	58	58	21	--	--	--	--	--
	\$73,362	\$58,740	\$73,451	\$77,292	\$94,990	--	--	--	--	--
40 - 44	178	41	38	35	52	12	--	--	--	--
	\$74,129	\$53,561	\$60,508	\$70,759	\$96,500	\$100,424	--	--	--	--
45 - 49	142	35	22	18	38	25	4	--	--	--
	\$74,905	\$52,372	\$64,284	\$68,573	\$85,722	\$95,560	\$127,122	--	--	--
50 - 54	161	20	40	23	24	35	16	3	--	--
	\$73,456	\$49,962	\$59,679	\$65,471	\$82,480	\$95,035	\$89,265	\$66,728	--	--
55 - 59	197	28	29	21	30	24	21	33	10	1
	\$72,709	\$49,368	\$48,335	\$70,978	\$66,460	\$77,005	\$99,788	\$93,028	\$95,815	\$83,585
60 - 64	176	23	26	27	27	22	12	17	21	1
	\$74,521	\$57,665	\$64,635	\$74,842	\$62,997	\$71,379	\$79,909	\$92,148	\$105,405	\$78,016
65 - 69	74	7	9	13	21	13	3	3	2	3
	\$67,382	\$48,521	\$66,471	\$57,456	\$64,584	\$80,730	\$130,269	\$48,997	\$63,194	\$77,175
70 & over	36	2	2	1	7	7	5	4	3	5
	\$65,441	\$59,806	\$45,292	\$59,218	\$66,806	\$69,147	\$58,099	\$69,865	\$49,915	\$83,016
Total	1,570	478	352	215	220	138	61	60	36	10
	\$68,291	\$51,095	\$63,173	\$73,133	\$80,765	\$86,031	\$92,991	\$87,718	\$95,772	\$80,820

## Section 3: Supplemental Information

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net assets at market value at the beginning of the year	\$394,676,536	\$341,843,096
<b>Contribution income:</b>		
• Employer contributions	\$31,996,468	\$31,303,599
• Employee contributions	11,415,653	10,671,799
• Federal Grant Reimbursement and Other contributions	519,163	489,727
• Less administrative expenses	<u>-410,977</u>	<u>-399,934</u>
<i>Net contribution income</i>	<i>\$43,520,307</i>	<i>\$42,065,191</i>
Investment income:	<u>45,564,922</u>	<u>52,933,716</u>
Total income available for benefits	<b>\$89,085,229</b>	<b>\$94,998,907</b>
<b>Less benefit payments:</b>		
• Pensions	<u>-\$43,959,517</u>	<u>-\$41,871,294</u>
• Net 3(8)(c) reimbursements	<u>-141,279</u>	<u>-294,173</u>
<i>Net benefit payments</i>	<i>-\$44,100,796</i>	<i>-\$42,165,467</i>
<b>Change in reserve for future benefits</b>	<b>\$44,984,433</b>	<b>\$52,833,440</b>
<b>Net assets at market value at the end of the year</b>	<b>\$439,660,969</b>	<b>\$394,676,536</b>

## Section 3: Supplemental Information

### Exhibit D: Department Breakouts

Department Code	Category	Active participants in valuation	Projected payroll for calendar 2021	Fiscal year ending 2023		
				Normal Cost, including 3(8)c reimbursements	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
001	Information Technology	12	\$1,143,834	\$25,946	\$219,575	\$245,521
002	Human Resources	6	548,068	11,483	217,801	229,284
003	Senior Services	5	381,830	4,089	95,397	99,486
004	Financial Information Systems	2	207,944	8,401	86,063	94,464
005	Jackson Homestead	3	204,220	14,335	36,497	50,832
006	Executive	7	757,645	41,232	276,646	317,878
007	Comptroller's	5	507,020	3,802	266,557	270,359
008	Retirement	3	289,344	196	98,148	98,344
009	Assessing	13	1,125,459	24,396	431,064	455,460
010	Purchasing	5	411,431	23,538	147,500	171,038
011	Treasury	10	703,494	21,407	153,489	174,896
012	Law	14	1,435,957	34,351	423,399	457,750
013	City Clerk	11	764,126	19,224	130,284	149,508
014	Clerk of the Board	3	239,014	1,971	89,224	91,195
015	City Council	14	226,570	18,534	82,671	101,205
016	Building	32	2,480,087	130,178	735,206	865,384
017	Elections	1	53,679	5,629	109,047	114,676
018	Planning	20	1,641,388	50,709	234,706	285,415
018F	Planning - Federally Funded	7	500,946	5,905	199,951	205,856
018P	Community Preservation (Planning)	1	76,143	15	29,254	29,269
019	Fire (Group 2 & 4)	188	19,571,877	1,831,939	7,679,670	9,511,609

## Section 3: Supplemental Information

Department Code	Category	Active participants in valuation	Projected payroll for calendar 2021	Fiscal year ending 2023		
				Normal Cost, including 3(8)c reimbursements	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
019A	Fire (Civilian Personnel)	6	586,627	18,003	165,514	183,517
019S	Fire (Retired under "Starck" Bill)	0	0	3,152	311,226	314,378
020	Police (Group 2 & 4)	102	9,710,159	877,960	5,026,828	5,904,788
020A	Police (Civilian Personnel)	33	2,424,819	26,380	553,268	579,648
020S	Police Superior Officers (Group 4)	37	5,314,810	439,237	1,832,704	2,271,941
021	Police School Traffic Supervisors	9	490,707	37,755	266,201	303,956
022	Sealer/Weights & Measures	1	91,452	5,467	21,192	26,659
023	Inspectional Services	15	1,298,987	66,046	330,855	396,901
025	Health & Human Services	43	3,116,578	102,553	761,884	864,437
026	Veterans	1	83,142	1,745	70,617	72,362
027	Library	53	3,427,548	81,618	1,254,839	1,336,457
028	School Custodian	88	5,397,904	155,297	1,748,848	1,904,145
029	School Cafeteria	0	0	2,030	206,656	208,686
030	School Teacher Aides	434	18,986,585	466,609	2,802,892	3,269,501
031	School Clerical	118	9,000,449	250,875	2,598,861	2,849,736
031A	School Committee	4	32,495	3,706	3,785	7,491
031B	School Use of Building (revolving)	2	103,623	5,944	49,681	55,625
031C	School Community Ed. / Summer School (revolving)	10	711,582	42,266	103,718	145,984
031E	School Ed Ctr Preschool (revolving)	12	350,575	13,677	31,573	45,250
031N	School NSHS Preschool (revolving)	1	43,938	981	573	1,554
031T	School Out-of-District Tuition	0	0	0	324	324

## Section 3: Supplemental Information

Department Code	Category	Active participants in valuation	Projected payroll for calendar 2021	Fiscal year ending 2023		
				Normal Cost, including 3(8)c reimbursements	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
032	Recreation	44	3,315,846	51,978	1,203,114	1,255,092
032A	Recreation - Arts in the Parks	0	0	0	0	0
033	Engineering	0	0	2,704	289,919	292,623
034	DPW	112	7,976,570	220,752	2,584,083	2,804,835
034A	DPW-Storm Water Management	9	613,807	16,733	114,993	131,726
034B	DPW 6 Man Highway Crew	0	0	0	0	0
035	Water/Sewer (General Personnel)	0	0	897	89,913	90,810
035S	Sewer Personnel	27	1,908,148	17,493	540,413	557,906
035W	Water Personnel	21	1,449,147	11,059	487,081	498,140
036	Newton Housing Authority	26	2,040,317	11,263	442,062	453,325
	<b>TOTAL</b>	<b>1,570</b>	<b>\$111,745,891</b>	<b>\$5,211,460</b>	<b>\$35,635,766</b>	<b>\$40,847,226</b>

## Section 3: Supplemental Information

### Exhibit E: Cashflow Forecast

Plan Year	MVA BOY	Administrative Expenses	Net 3(8)(c) Payments	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	MVA EOY	Net Change in Plan Assets
2021	\$439,660,969	\$450,000	\$200,000	\$49,363,122	\$11,155,066	\$37,269,367	\$31,794,268	\$469,866,547	\$30,205,578
2022	469,866,547	462,375	205,500	51,253,456	11,461,830	40,847,226	34,055,169	504,309,442	34,442,894
2023	504,309,442	475,090	211,151	53,200,087	11,777,031	44,768,559	36,633,956	543,602,660	39,293,218
2024	543,602,660	488,155	216,958	54,795,045	12,100,899	49,066,341	39,591,064	588,860,806	45,258,146
2025	588,860,806	501,580	222,924	56,375,272	12,433,674	53,776,710	42,996,405	640,967,818	52,107,012
2026	640,967,818	515,373	229,055	57,870,482	12,775,600	58,939,274	46,918,055	700,985,837	60,018,019
2027	700,985,837	529,546	235,354	59,222,028	13,126,929	64,597,444	51,436,728	770,160,011	69,174,174
2028	770,160,011	544,108	241,826	60,492,553	13,487,919	70,798,799	56,642,159	849,810,401	79,650,390
2029	849,810,401	559,071	248,476	61,589,916	13,858,837	74,511,772	62,523,507	938,307,054	88,496,653
2030	938,307,054	574,446	255,309	62,632,995	14,239,955	6,717,659	66,456,372	962,258,290	23,951,236
2031	962,258,290	590,243	262,330	63,463,986	14,631,554	6,933,822	68,183,090	987,690,196	25,431,906
2032	987,690,196	606,475	269,544	64,271,032	15,033,922	7,156,841	70,018,618	1,014,752,526	27,062,329
2033	1,014,752,526	623,153	276,957	65,031,685	15,447,354	7,386,933	71,974,645	1,043,629,663	28,877,137
2034	1,043,629,663	640,289	284,573	65,598,834	15,872,157	7,624,318	74,069,888	1,074,672,329	31,042,666
2035	1,074,672,329	657,897	292,399	66,168,047	16,308,641	7,869,227	76,322,703	1,108,054,557	33,382,228
2036	1,108,054,557	675,990	300,440	66,795,970	16,757,129	8,121,894	78,743,675	1,143,904,854	35,850,298
2037	1,143,904,854	694,579	308,702	67,293,385	17,217,950	8,382,562	81,348,997	1,182,557,697	38,652,843
2038	1,182,557,697	713,680	317,191	67,792,954	17,691,443	8,651,483	84,158,131	1,224,234,929	41,677,232
2039	1,224,234,929	733,306	325,914	68,341,309	18,177,958	8,928,913	87,185,491	1,269,126,762	44,891,833
2040	1,269,126,762	753,472	334,877	68,881,618	18,677,852	9,215,122	90,446,947	1,317,496,715	48,369,953
2041	1,317,496,715	774,193	344,086	69,476,820	19,191,493	9,510,381	93,959,345	1,369,562,835	52,066,120
2042	1,369,562,835	795,483	353,548	70,090,880	19,719,259	9,814,975	97,739,822	1,425,596,980	56,034,145
2043	1,425,596,980	817,359	363,271	70,632,719	20,261,538	10,129,196	101,811,413	1,485,985,779	60,388,799
2044	1,485,985,779	839,836	373,261	71,011,278	20,818,731	10,453,345	106,205,473	1,551,238,953	65,253,174
2045	1,551,238,953	862,932	383,525	71,336,422	21,391,246	10,787,733	110,954,999	1,621,790,051	70,551,098
2046	1,621,790,051	886,662	394,072	71,649,548	21,979,505	11,132,678	116,089,946	1,698,061,898	76,271,847
2047	1,698,061,898	911,046	404,909	71,971,844	22,583,941	11,488,512	121,640,228	1,780,486,780	82,424,882
2048	1,780,486,780	936,099	416,044	72,116,267	23,205,000	11,855,574	127,643,992	1,869,722,936	89,236,156
2049	1,869,722,936	961,842	427,485	72,272,382	23,843,137	12,234,215	134,142,117	1,966,280,695	96,557,759
2050	1,966,280,695	988,293	439,241	72,284,155	24,498,824	12,624,796	141,177,285	2,070,869,910	104,589,215

Notes:

Projected benefit payments are based on a closed group projection and do not include return of employee money for inactive non-vested participants.

Employee contributions, administrative expenses and net (3)(8)(c) payments are projected to increase at 2.75% inflation assumption.

Employer contributions are as shown on page 23.



## Section 3: Supplemental Information

### Exhibit F: Definition of Pension Terms

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

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

## Section 3: Supplemental Information

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

## Section 3: Supplemental Information

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

## Section 3: Supplemental Information

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

# Section 4: Actuarial Valuation Basis

## Exhibit I: Actuarial Assumptions, Actuarial Cost Method and Models

<b>Net Investment Return:</b>	7.25%, net of investment expenses.		
	The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation.		
<b>Salary Increases:</b>	<b>Years of Service</b>	<b>Groups 1 and 2</b>	<b>Group 4</b>
	0	7.00%	8.00%
	1	6.50%	7.50%
	2	6.00%	7.00%
	3	5.50%	6.50%
	4	5.25%	6.00%
	5	5.00%	5.50%
	6	4.75%	5.25%
	7	4.50%	5.00%
	8	4.25%	4.75%
	9	4.00%	4.50%
	10	3.75%	4.25%
	11+	3.50%	4.00%
	Includes allowance for wage inflation of 2.75%.		
	The salary increase assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgement.		
<b>Interest on Employee Contributions:</b>	3.5%		

## Section 4: Actuarial Valuation Basis

<b>Administrative Expenses:</b>	<p>\$450,000 for calendar 2021, increasing 2.75% per year (previously, \$415,000 for calendar 2020, increasing 2.75% per year).</p> <p>The administrative expense assumption is based on information on expected expenses provided by the Retirement System.</p>
<b>Allowance for Net 3(8)(c) Payments:</b>	<p>\$200,000 for calendar year 2021, increasing 2.75% per year (previously, \$200,000 for calendar year 2020, increasing 2.75% per year).</p>
<b>Mortality Rates:</b>	<p><i>Pre-Retirement:</i> RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017</p> <p><i>Healthy Retiree:</i> RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017</p> <p><i>Disabled Retiree:</i> RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017</p> <p>The mortality tables, including the generation projection to the measurement date, reasonably reflect the projected mortality experience of the Plan as of the measurement date based on historical and current demographic data. As part of the analysis, a comparison was made between the actual number of retiree deaths and the projected number based on the prior years' assumptions over the five most recent valuations. The mortality tables were then adjusted to future years using generational projection under Scale MP-2017 to reflect future mortality improvement.</p>

## Section 4: Actuarial Valuation Basis

### Termination Rates before Retirement:

Age	Groups 1 and 2 - Rate (%)		
	Mortality		
	Male	Female	Disability
20	0.05	0.02	0.01
25	0.06	0.02	0.02
30	0.06	0.02	0.03
35	0.07	0.03	0.06
40	0.08	0.04	0.10
45	0.13	0.07	0.15
50	0.22	0.12	0.19
55	0.36	0.19	0.24
60	0.61	0.27	0.28

#### Notes:

Mortality rates do not reflect generational projection.

70% of the disability rates shown represent accidental disability.

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

70% of the death rates shown represent accidental death.

## Section 4: Actuarial Valuation Basis

Age	Group 4 - Rate (%)		
	Mortality		
	Male	Female	Disability
20	0.05	0.02	0.10
25	0.06	0.02	0.20
30	0.06	0.02	0.30
35	0.07	0.03	0.30
40	0.08	0.04	0.30
45	0.13	0.07	1.00
50	0.22	0.12	1.25
55	0.36	0.19	1.20
60	0.61	0.27	0.85

**Notes:**

Mortality rates do not reflect generational projection.

90% of the disability rates shown represent accidental disability.

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

90% of the death rates shown represent accidental death.



## Section 4: Actuarial Valuation Basis

### Withdrawal Rates:

Years of Service	Rate per year (%)	
	Groups 1 and 2	Group 4
0	15.0	1.5
1	12.0	0.0
2	10.0	
3	9.0	
4	8.0	
5	7.6	
6	7.5	
7	6.7	
8	6.3	
9	5.9	
10	5.4	
11	5.0	
12	4.6	
13	4.1	
14	3.7	
15	3.3	
16 – 20	2.0	
21 – 29	1.0	
30+	0.0	

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

## Section 4: Actuarial Valuation Basis

### Retirement Rates:

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

Retirement rates are 0.0% if the employee is not eligible to retire.

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

<sup>1</sup> Rate is 15.0% for employees hired prior to April 2, 2012 and 30.0% for employees hired on or after April 2, 2012 (Previously, 15.0% for all employees).

<sup>2</sup> Rate is 12% for employees hired prior to April 2, 2012 and 20.0% for employees hired on or after April 2, 2012 (Previously, 12% for all employees).

## Section 4: Actuarial Valuation Basis

<b>Retirement Rates for Inactive Vested Participants:</b>	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 demographic data, adjusted to reflect economic conditions of the area and estimated future experience and professional judgment.
<b>Unknown Data for Participants:</b>	Same as those exhibited by participants with similar known characteristics.
<b>Family Composition:</b>	80% of participants are assumed to be married. None are assumed to have dependent children. Females are assumed to be three years younger than their spouses.
<b>Benefit Election:</b>	All participants are assumed to elect Option A. The benefit election reflects the fact that all benefit options are actuarially equivalent.
<b>Total Service:</b>	Total creditable service reported in the data
<b>2020 Salaries:</b>	2020 salaries are equal to salaries provided in the data, annualized for new hires. 2020 salaries were increased by 7.7% for superior officers, 1.5% for Local 25 Teamsters, 5.6% for parking control clerks and patrolmen and 3.5% for Local 3092 City Hall associates and inspectors, engineers, and Local 2443 foremen to reflect unsettled bargaining contracts. Figures were decreased by 1.5% for firemen, 0.2% for nurses, 2.9% for Local 25 Teamsters, 0.6% for school clerical staff and 1.0% for custodians to reflect retroactive payments. Figures were also decreased for superior officers based on individual retroactive information provided by the staff of the Retirement System,
<b>Actuarial Value of Assets:</b>	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (at the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments). Twenty-five percent of the difference between the market value of assets as reported in the System's Annual Statement and the preliminary actuarial value of assets is added to the preliminary actuarial value. In order that the actuarial value not differ too significantly from the market value of assets, the final actuarial value of assets must be within 20% of the market value of assets.
<b>Actuarial Cost Method:</b>	Entry Age Normal Actuarial Cost Method. Entry Age is the attained age of the participant minus total creditable service. 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.
<b>Models:</b>	Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

## Section 4: Actuarial Valuation Basis

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**Justification for Change in Actuarial Assumptions:**

Based on past experience and future expectations, the following actuarial assumptions were changed as of January 1, 2021:

- The administrative expense assumption was increased from \$415,000 to \$450,000.
  - Minor changes were made to the retirement assumption at select ages
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## Section 4: Actuarial Valuation Basis

### Exhibit II: Summary of Plan Provisions

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

<b>Plan Year:</b>	January 1 through December 31
<b>Plan Status:</b>	Ongoing

**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.

## Section 4: Actuarial Valuation Basis

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

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

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

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

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

## Section 4: Actuarial Valuation Basis

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.

## Section 4: Actuarial Valuation Basis

<b>Ordinary Disability Benefit:</b>	A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.
<b>Accidental Disability Benefit:</b>	For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.
<b>Death Benefits:</b>	<p>In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$250 per month, and there are additional amounts for surviving children.</p> <p>If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death.</p> <p>Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.</p>
<b>"Heart And Lung Law" And Cancer Presumption:</b>	Any case of hypertension or heart disease resulting in total or partial disability or death to a uniformed fireman, permanent member of a police department, or certain employees of a county correctional facility is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. Any case of disease of the lungs or respiratory tract resulting in total disability or death to a uniformed fireman is presumed to have been suffered in the line of duty, unless the contrary is shown by competent evidence. There is an additional presumption for uniformed firemen that certain types of cancer are job-related if onset occurs while actively employed or within five years of retirement.
<b>Options:</b>	Members may elect to receive a full retirement allowance payable for life under Option A. Under Option B a member may elect to receive a lower monthly allowance in exchange for a guarantee that at the time of death any contributions not expended for annuity payments will be refunded to the beneficiary. Option C allows the member to take a lesser retirement allowance in exchange for providing a survivor with two-thirds of the lesser amount. Option C pensioners will have benefits converted from a reduced to a full retirement if the beneficiary predeceases the retiree



## Section 4: Actuarial Valuation Basis

<b>Post-Retirement Benefits:</b>	The Board has adopted the provisions of Section 51 of Chapter 127 of the Acts of 1999, which provide that the Retirement Board may approve an annual COLA in excess of the Consumer Price Index but not to exceed a 3% COLA on the first \$12,000 of a retirement allowance. Cost-of-living increases granted prior to July 1, 1998 are reimbursed by the Commonwealth and not reflected in this report.
<b>Changes in Plan Provisions:</b>	There have been no changes in plan provisions since the last valuation.