

Analysis of Early Retirement Incentive Program (ERIP)
for the Norfolk County Retirement System
December, 2004



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INTRODUCTION

The Public Employee Retirement Administration Commission (PERAC) is pleased to release our analysis of Section 116 of Chapter 46 of the Acts of 2003, *An Act Providing Relief and Flexibility to Municipal Officials* which established a local option to allow cities, towns, counties, authorities, and districts to offer an Early Retirement Incentive Program (ERIP). The ERIP was adopted by the Towns of Foxboro, Holbrook, Norfolk, Randolph, Walpole and Westwood, the Canton Housing Authority and Norfolk Mosquito Control. Subsection 8 of the law directed PERAC to complete an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the Act and submit a report to the board by December 31, 2004.

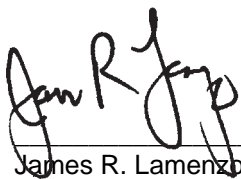
The law provides that retirement allowances of members who participated in the ERIP be determined by adding up to 5 years to the member's age and/or creditable service (any combination in full years up to a maximum of 5 years). A member's enhanced benefit cannot exceed 80% of the average rate of annual compensation used in his/her calculation. Members retiring under the program had effective dates of retirement between October 30, 2003 and December 31, 2003.

This study was based on active member data as of December 31, 2002, and additional data for retirees who were eligible for and elected the ERIP. All data was supplied by the board. We previously reviewed the December 31, 2002 data as part of the 2003 data submission process. We reviewed each member's data as both an active and retired member for reasonableness and consistency.

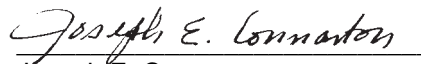
We used the investment return assumption used in the most recent actuarial valuation report. For all other assumptions, we used the standard PERAC assumption set for performing actuarial valuations as of January 1, 2003. These assumptions differ from the assumptions used in your most recent actuarial valuation being performed as of January 1, 2004. The assumptions are shown at the back of this report.

We believe this report represents an accurate appraisal of the costs and liabilities of the ERIP for the retirement system. This analysis was performed in accordance with generally accepted actuarial principles and practices relating to pension plans. In our opinion, the actuarial assumptions used in this report are reasonable, related to plan experience and expectations, and represent our best estimate of anticipated experience.

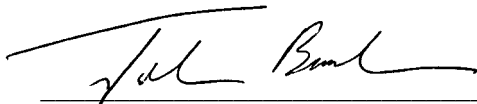
Respectfully submitted,
Public Employee Retirement Administration Commission



James R. Lamenz
*Member of the American Academy of Actuaries
Associate of the Society of Actuaries
Enrolled Actuary Number 02-4709*



Joseph E. Connarton
Executive Director



John F. Boorack
Senior Actuarial Analyst

Dated: December 16, 2004

COST ANALYSIS BY GOVERNMENTAL UNIT

Methodology

The results of our analysis for each governmental unit that accepted the ERIP are presented on the following pages. Participating units had the option to limit the number of years and/or the number of members eligible to retire under the program. Such limitations are noted.

Our analysis of the cost of the ERIP consisted of measuring the change in both the actuarial accrued liability and normal cost before and after the application of the enhanced benefit. The amortization the increase in actuarial accrued liability and the normal cost form the basis of the impact of the ERIP on the plan's funding schedule. These items are discussed below.

Actuarial Accrued Liability

We measured the increase in actuarial accrued liability due to the incentive for each member who retired under the program. First, we valued the group as active members on January 1, 2003 (including any changes to reflect service adjustments made after January 1, 2003, such as service buy-backs). This calculation determines the liability attributable to the employees who elected the ERIP exclusive of the additional liability associated with the incentive program. These results were then brought forward on an actuarial basis to reflect the estimated accrued liability as of the average retirement date for each unit.

We then valued the same group as retirees after the application of the ERIP. These liabilities were determined as of the average retirement date for each unit.

The accrued liability for the members as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. This increase will be amortized as part of the system's funding schedule and will be a component of the system's annual appropriation. We assumed the amortization of the increase in liability would begin with the FY06 appropriation.

Normal Cost

The increase in actuarial liability is somewhat offset by a decrease in normal cost. The normal cost, or actuarial cost for the current year for active members, is shown as of January 1, 2003. There is no normal cost for retired members. Any decrease in normal cost for a retiring member would only be expected to last for a few years (the period the member would have remained in active service if the ERIP were not implemented).

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Foxboro

Actives		Retirees	
Number of Members	11	Number of Members	11
Average Service	23.3	Average Age	62.2
Average Compensation	\$50,381	Average Annual Benefit	\$30,739

	As Actives	As Retirees
Total Regular Compensation	\$554,200	N/A
Total Normal Cost	\$69,500	N/A
Employee Contributions	\$30,200	N/A
Net Employer Normal Cost	\$39,300	N/A
Actuarial Liability (as of December 31, 2003)	\$2,962,800	\$3,705,100

Increase in Actuarial Liability (as of December 31, 2003)	\$742,300
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$54,600

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Holbrook – Limited to 2 School Department Employees

Actives		Retirees	
Number of Members	2	Number of Members	2
Average Service	17.3	Average Age	62.7
Average Compensation	\$38,927	Average Annual Benefit	\$17,676

	As Actives	As Retirees
Total Regular Compensation	\$77,900	N/A
Total Normal Cost	\$9,700	N/A
Employee Contributions	\$5,400	N/A
Net Employer Normal Cost	\$4,300	N/A
Actuarial Liability (as of December 1, 2003)	\$314,300	\$400,400

Increase in Actuarial Liability (as of December 1, 2003)	\$86,100
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$6,400

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Norfolk

Actives	
Number of Members	4
Average Service	20.3
Average Compensation	\$47,109

Retirees	
Number of Members	4
Average Age	58.4
Average Annual Benefit	\$29,009

	As Actives	As Retirees
Total Regular Compensation	\$188,400	N/A
Total Normal Cost	\$37,900	N/A
Employee Contributions	\$13,800	N/A
Net Employer Normal Cost	\$24,200	N/A
Actuarial Liability (as of December 31, 2003)	\$966,800	\$1,342,500

Increase in Actuarial Liability (as of December 31, 2003)	\$375,700
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$27,600

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Randolph

Actives	
Number of Members	28
Average Service	23.2
Average Compensation	\$42,991

Retirees	
Number of Members	28
Average Age	60.8
Average Annual Benefit	\$27,443

	As Actives	As Retirees
Total Regular Compensation	\$1,203,800	N/A
Total Normal Cost	\$144,900	N/A
Employee Contributions	\$69,800	N/A
Net Employer Normal Cost	\$75,100	N/A
Actuarial Liability (as of December 15, 2003)	\$6,505,700	\$8,366,500

Increase in Actuarial Liability (as of December 15, 2003)	\$1,860,800
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$137,300

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Walpole

Actives		Retirees	
Number of Members	17	Number of Members	17
Average Service	23.1	Average Age	61.0
Average Compensation	\$38,597	Average Annual Benefit	\$23,457

	As Actives	As Retirees
Total Regular Compensation	\$656,200	N/A
Total Normal Cost	\$76,200	N/A
Employee Contributions	\$37,100	N/A
Net Employer Normal Cost	\$39,100	N/A
Actuarial Liability (as of December 15, 2003)	\$3,382,100	\$4,352,900

Increase in Actuarial Liability (as of December 15, 2003)	\$970,800
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$71,600

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Town of Westwood

Actives	
Number of Members	3
Average Service	25.9
Average Compensation	\$49,022

Retirees	
Number of Members	3
Average Age	51.9
Average Annual Benefit	\$34,890

	As Actives	As Retirees
Total Regular Compensation	\$147,100	N/A
Total Normal Cost	\$24,100	N/A
Employee Contributions	\$8,600	N/A
Net Employer Normal Cost	\$15,500	N/A
Actuarial Liability (as of December 31, 2003)	\$804,500	\$1,195,300

Increase in Actuarial Liability (as of December 31, 2003)	\$390,800
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$28,700

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Canton Housing Authority

Actives		Retirees	
Number of Members	1	Number of Members	1
Average Service	25.3	Average Age	57.8
Average Compensation	\$52,002	Average Annual Benefit	\$30,126

	As Actives	As Retirees
Total Regular Compensation	\$52,002	N/A
Total Normal Cost	\$4,100	N/A
Employee Contributions	\$3,400	N/A
Net Employer Normal Cost	\$700	N/A
Actuarial Liability (as of December 31, 2003)	\$264,100	\$337,200

Increase in Actuarial Liability (as of December 31, 2003)	\$73,100
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$5,400

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

COST ANALYSIS BY GOVERNMENTAL UNIT *(continued)*

Norfolk Mosquito Control

Actives	
Number of Members	1
Average Service	17.3
Average Compensation	\$35,522

Retirees	
Number of Members	1
Average Age	55.2
Average Annual Benefit	\$10,877

	As Actives	As Retirees
Total Regular Compensation	\$35,522	N/A
Total Normal Cost	\$3,700	N/A
Employee Contributions	\$2,900	N/A
Net Employer Normal Cost	\$800	N/A
Actuarial Liability (as of November 15, 2003)	\$129,100	\$154,900

Increase in Actuarial Liability (as of November 15, 2003)	\$25,800
Amortization of Increase for FY06 (assumed average payment October 1)	
4.5% annual increasing basis to 2028	\$1,900

The above results provide a measure of the increase in actuarial accrued liability and decrease in normal cost due to the ERIP. The actuarial liability and normal cost were determined as active members (before the implementation of the ERIP) and as retired members (with the enhanced ERIP benefit).

For active members, average service reflects service as of January 1, 2003 but excludes any enhanced service provided by the ERIP. For retired members, the averages are as of December 31, 2003.

EFFECT ON FUNDING SCHEDULE

Amortization of the Increase in Actuarial Accrued Liability

The bottom section of the cost page for each governmental unit shows the amortization of the increase in actuarial accrued liability on a 23-year, 4.5% increasing amortization basis. This basis requires a funding amount of \$333,500 for FY06 and increases each year until FY28. The allocation to each governmental unit is summarized below. Future system appropriations will reflect these unit costs.

Governmental Unit	4.5% increasing, 23-year Effective FY06
Town of Foxboro	\$54,600
Town of Holbrook	\$6,400
Town of Norfolk	\$27,600
Town of Randolph	\$137,300
Town of Walpole	\$71,600
Town of Westwood	\$28,700
Canton Housing Authority	\$5,400
Norfolk Mosquito Control	\$1,900
Total	\$333,500

The legislation did not specify how the increased cost should be amortized under the schedule. The Board indicated that the ERIP will be funded on a 23-year, 4.5% increasing amortization basis.

Decrease in Normal Cost

There is a decrease in employer normal cost for all units of approximately \$199,000 in FY04 for retiring members since normal cost accrues only for active members. This decrease is only expected to last a few years (the period the member would have remained in service if the ERIP were not implemented). This decrease will be partially offset by the normal cost for any members hired to replace retiring members. Any decrease in employer normal cost will be reflected in future actuarial valuations and corresponding funding schedules. We have not estimated the normal cost for new hires as part of this study.

ACTUARIAL ASSUMPTIONS

Actuarial Cost Method Entry Age Normal

Investment Return 8.5% per year

Interest Rate credited to the
Annuity Savings Fund 3.5% per year

Assumed rate of Cost of Living
Increases (COLA) 3% per year

Mortality RP- 2000 Healthy Annuitant table (gender distinct). This is applicable to both pre-retirement and post-retirement benefits. For disabled members, the mortality rate is assumed to be in accordance with the RP- 2000 Table (gender distinct) set forward 2 years. It is assumed that 55% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Salary Increase Based on an analysis of past experience. Annual rates are shown below.

Service	Group 1	Group 2	Group 4
0	7.00%	7.00%	8.00%
1	6.50%	6.50%	7.50%
2	6.50%	6.50%	7.00%
3	6.00%	6.00%	6.50%
4	6.00%	6.00%	6.00%
5	5.50%	5.50%	6.00%
6	5.50%	5.50%	5.50%
7	5.00%	5.00%	5.50%
8	5.00%	5.00%	5.25%
9	4.75%	5.00%	5.25%
10+	4.75%	5.00%	5.25%

ACTUARIAL ASSUMPTIONS *(continued)*

Retirement

Age	Groups 1 & 2		Group 4
	Male	Female	
45	0.000	0.000	0.010
46	0.000	0.000	0.010
47	0.000	0.000	0.010
48	0.000	0.000	0.010
49	0.000	0.000	0.010
50	0.010	0.015	0.020
51	0.010	0.015	0.020
52	0.010	0.020	0.020
53	0.010	0.025	0.050
54	0.020	0.025	0.075
55	0.020	0.055	0.150
56	0.025	0.065	0.100
57	0.025	0.065	0.100
58	0.050	0.065	0.100
59	0.065	0.065	0.150
60	0.120	0.050	0.200
61	0.200	0.130	0.200
62	0.300	0.150	0.250
63	0.250	0.125	0.250
64	0.220	0.180	0.300
65	0.400	0.150	1.000
66	0.250	0.200	1.000
67	0.250	0.200	1.000
68	0.300	0.250	1.000
69	0.300	0.200	1.000
70	1.000	1.000	1.000

ACTUARIAL ASSUMPTIONS *(continued)*

Disability Based on an analysis of past experience. Sample annual rates are shown below.

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

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

Withdrawal

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

Groups 1 & 2

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

PERAC
Five Middlesex Avenue
Third Floor
Somerville, MA
02145

ph 617 666 4446
fax 617 628 4002
tty 617 591 8917
web www.mass.gov/perac