

January 1, 2022

Actuarial Valuation Report

Stoneham Retirement System



stoneconsulting,inc

5 West Mill Street, Suite 4
Medfield, Massachusetts 02052
T: 508.359.9600 • F: 508.359.0190
Jmoreau@stoneconsult.com
Cedgar@stoneconsult.com



September 22, 2022

Stoneham Contributory Retirement System
Town Hall
35 Central Street
Stoneham, MA 02180

To the Stoneham Retirement Board:

Stone Consulting, Inc. has performed a January 1, 2022 actuarial valuation of the Stoneham Retirement System. This valuation and report were prepared using generally accepted actuarial principles and practices. To the best of our knowledge, this report is complete and accurate, and the assumptions used represent a reasonable estimate of anticipated experience of the system unless noted in the text.

Stone Consulting, Inc. is completely independent of the Town of Stoneham and the Stoneham Retirement System. This includes any of its officers and key personnel. Neither we or anyone else closely associated with us has any relationship with the Town of Stoneham or the Stoneham Retirement System that would impair our independence, other than this or related assignments.

We are pleased to present the results of this valuation. If the Retirement Board has any questions on the content of this report, we would be glad to respond. Please note that this report is meant to be used in its entirety. Use of excerpts of this report may result in inaccurate or misleading understanding of the results. The use of these results may not be appropriate for all circumstances.

I, Colin Edgar, am a consultant for Stone Consulting, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

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

Colin Edgar
Member, American Academy of Actuaries

TABLE OF CONTENTS

PAGE

Certification Letter

Report Summary	1
Summary of Experience	1
Format of the Report	1
Development of Funding Schedule (based on valuation assets)	2
Funding Schedule based on Valuation Assets	3
Asset Experience in 2022	4
Funding Schedule based on Market Value of Assets as of June 30, 2022	5
History of Funding Effort	6
Components of Funding Appropriation	7
Net 3(8)(c) Payments	7
Development of Actuarial Results	8
Net Normal Cost	9
Unfunded Liability	10
Demographic Results	12
History of Demographic Statistics	12
Distribution of Plan Members	13
Assets	15
Five-Year Asset Smoothing	16
Asset Valuation Comparison	17
Funding Ratio	17
Risk	18
Maturity	18
Historical Experience	19
History of Assets and Unfunded Liability	19
History of Unfunded Liability and Covered Payroll	19
Comparative Results	20
APPENDICES	21
Appendix A – Actuarial Methods and Assumptions	21
Appendix B – Summary of Principal Provisions	26
Appendix C – Glossary of Terms	30
PERAC Information Disclosure	31

Report Summary

This report presents the results of the actuarial valuation of the Stoneham Retirement System as of January 1, 2022. The valuation was performed at the request of the Retirement Board for the purpose of determining the contribution requirements for Fiscal Year 2024 and beyond.

Contribution requirements are based on the financial condition of the system as of December 31, 2021, as well as actuarial liability results, which are based on:

- The benefit provisions of M.G.L. Chapter 32 and related statutes;
- The demographics of members in the system (i.e., active and inactive participants, retirees and beneficiaries as of January 1, 2022);
- Economic assumptions regarding salary increases and investment earnings; and
- Other actuarial assumptions (e.g., withdrawals, retirement, death, etc.)

Summary of Experience

- Multiple funding schedules are included in this report
 - One schedule (page 3) is based on the valuation assets as of 1/1/2022, adjusted for payables and receivables and including the effect of five-year asset smoothing as described on page 16.
 - The other schedule (page 5) is based on the Market Value of Assets as of June 30, 2022. This schedule is intended to provide an estimate of the effect of investment experience in cy2022 on funding contributions.

Both funding schedules have the same contribution amount for FY2024 and FY2025.

- There were two changes in assumptions and one change of plan provisions:
 - The mortality improvement scale was updated from MP-2019 to MP-2021
 - The discount rate was reduced from 7.25% to 7.00%
 - The COLA Base was increased from \$13,000 to \$15,000
- These changes increased the liability by \$4.0 million
- Assumptions and valuation methodology are discussed in appendix A, on page 21.

Format of the Report

Full actuarial valuation results are shown on page 18, with prior results included for comparison. The Stoneham Retirement Board conducted their previous actuarial valuation effective January 1, 2020.

The funding schedule is shown on page 3, followed by an explanation of the actuarial results.

Development of Funding Schedule (based on valuation assets)

The funding contribution consists of three parts:

- Net Normal Cost: this is the amount of liability generated by active employees earning another year of service, and includes administrative expense.
- Amortization: this is the amount of the Unfunded Liability that will be paid off by this contribution.
- Net 3(8)(c) Payments: these are benefit payments made to other systems for service earned as a member of the Stoneham Retirement System.

The appropriation for Fiscal 2024 is as follows:

Net Employer Normal Cost for Fiscal 2024 (including admin. expenses)	\$ 1,581,237
Net 3(8)(c) Payments	(11,562)
Amortization	5,683,049
Timing Adjustment*	<u>0</u>
Total Appropriation required for Fiscal 2024	\$ 7,252,723

* Contributions are assumed to be made at the beginning of the fiscal year.

NOTE: for all tables in this report, totals may not sum due to rounding.

- The schedule's length is three (3) years which consistent with the 3 years remaining from the 5-year schedule in the January 1, 2020 valuation. The maximum funding schedule length allowed by Section 22D of Chapter 32 of the Massachusetts General Laws is seven years to Fiscal 2030.
- Stoneham's funding schedule is based on level contributions in the first two years, followed by a 5% decrease and an amortization of the remainder of the liability in the final year. For the funding schedule based on valuation assets as of January 1, the third year decreases by 66.68% to fund the remainder of the liability.

The schedules are shown and discussed on the following three pages.

STONEHAM CONTRIBUTORY RETIREMENT SYSTEM

FUNDING SCHEDULE

Fiscal Year	Normal Cost	Unfunded Liability	Funding Amortization of UAAL	Net 3(8)(c) Payments	Schedule Contribution*	% Change
2024	1,581,237	11,540,493	5,683,049	(11,562)	7,252,723	0.00%
2025	1,652,393	6,267,465	5,611,893	(11,562)	7,252,723	0.00%
2026	1,726,750	701,462	701,462	(11,562)	2,416,650	-66.68%
2027	1,804,454	-	-	(11,562)	1,792,892	-25.81%

Amortization of Unfunded Liability as of July 1, 2023

* The contribution is set to remain level through FY2025, and then amortize the remainder of the unfunded liability in FY2026.

NOTE: this schedule does **NOT** account for the effect of investment experience in calendar year 2022.
The funding schedule on page 5 provides an approximation of the effect of more up-to-date experience.

Bases in the funding schedule:

- Amortization of the unfunded actuarial accrued liability: 3 years.

Asset Experience in 2022

Chapter 32 Retirement systems experienced considerable investment gains in calendar years 2020 and 2021, followed by expected considerable losses in calendar year 2022. As a result, the funded status of the Plan as of the valuation date is likely to differ considerably from the following year.

In the interest of providing a more representative view of future funding experience based on more recent information, a funding schedule is provided on the following page which is based on the Market Value of Assets as of June 30, 2022. Recognizing the effect of asset losses that occurred in the first half of Calendar Year 2022 has the effect of extending the final year of the funding schedule from FY2026 to FY2027, increasing the FY2026 contribution from \$2,416,650 to \$6,890,087.

An approximation of the effect of asset experience in calendar year 2022 was prepared based on a June 30, 2022 Market Value of Assets of \$112,297,593.55 provided by the Stoneham Retirement System. Asset smoothing was not used. The liability was rolled forward from January 1, 2022 to June 30, 2022 by assuming that benefits of \$4,199,331 were paid for the first half of 2022; this is equal to half of retiree payroll based on the valuation data. The unfunded liability was rolled forward to FY2024, resulting in a UAAL of \$18,338,562; this compares to a FY2024 UAAL of \$11,540,493 based on valuation assets.

The asset balance used for this schedule is a preliminary figure, and the amount of benefits was approximated as described in this section. In light of these limitations, this schedule is presented solely as a representation of how future experience is likely to diverge from the schedule presented on the previous page. Asset data as of 12/31/2022, when available, will provide a refinement of these results and a clearer image of funding experience for FY2026 and onward than is currently available.

STONEHAM CONTRIBUTORY RETIREMENT SYSTEM

FUNDING SCHEDULE - based on Market Value of Assets as of June 30, 2022

Fiscal Year	Normal Cost	Unfunded Liability	Funding Amortization of UAAL	Net 3(8)(c) Payments	Schedule Contribution*	% Change
2024	1,581,237	18,338,562	5,683,049	(11,562)	7,252,723	0.00%
2025	1,652,393	13,541,399	5,611,893	(11,562)	7,252,723	0.00%
2026	1,726,750	8,484,571	5,174,899	(11,562)	6,890,087	-5.00%
2027	1,804,454	3,541,349	3,541,349	(11,562)	5,334,241	-22.58%
2028	1,885,655	-	-	(11,562)	1,874,092	-64.87%

Amortization of Unfunded Liability as of July 1, 2023

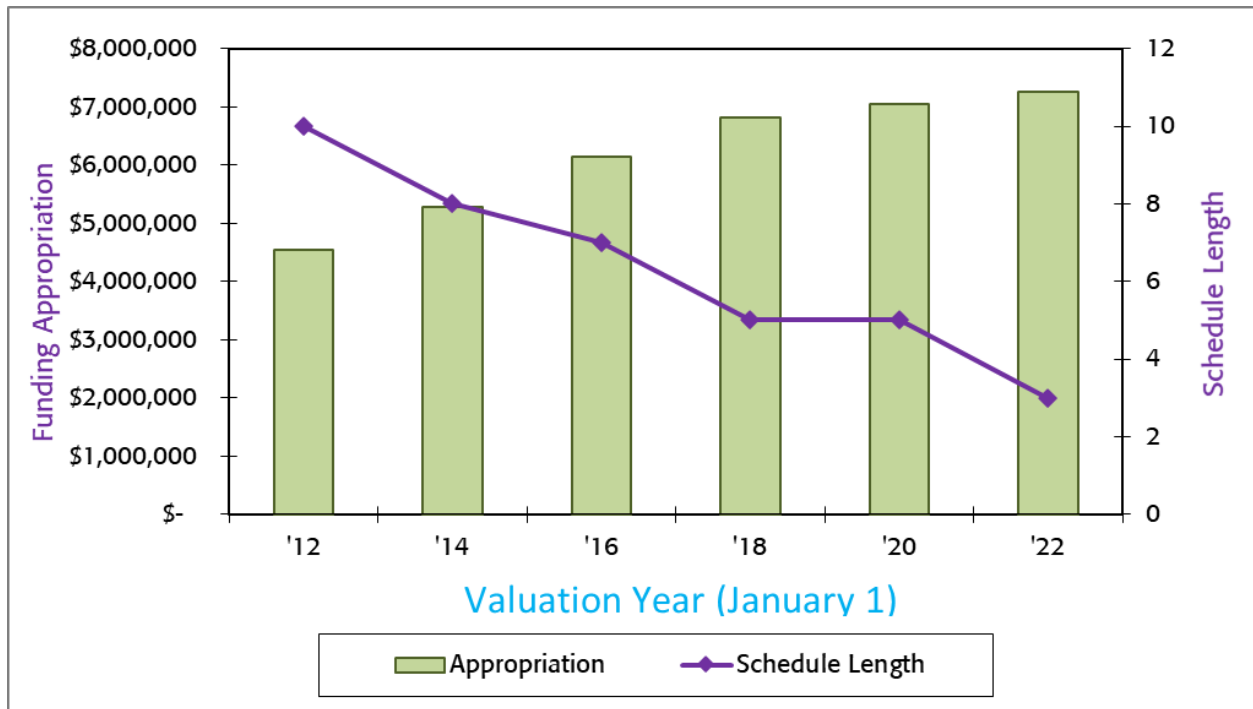
* The contribution is set to remain level through FY2025, followed by a 5% decrease in FY2026. The remainder of the unfunded liability is then amortized in FY2027.

Bases in the funding schedule:

- Amortization of the unfunded actuarial accrued liability: 4 years.

History of Funding Effort

Below is a history of the length of funding schedule used by the Stoneham Retirement System, and the amount of the initial contribution for each funding schedule. Note that this exhibit is based on the funding schedule on page 3.

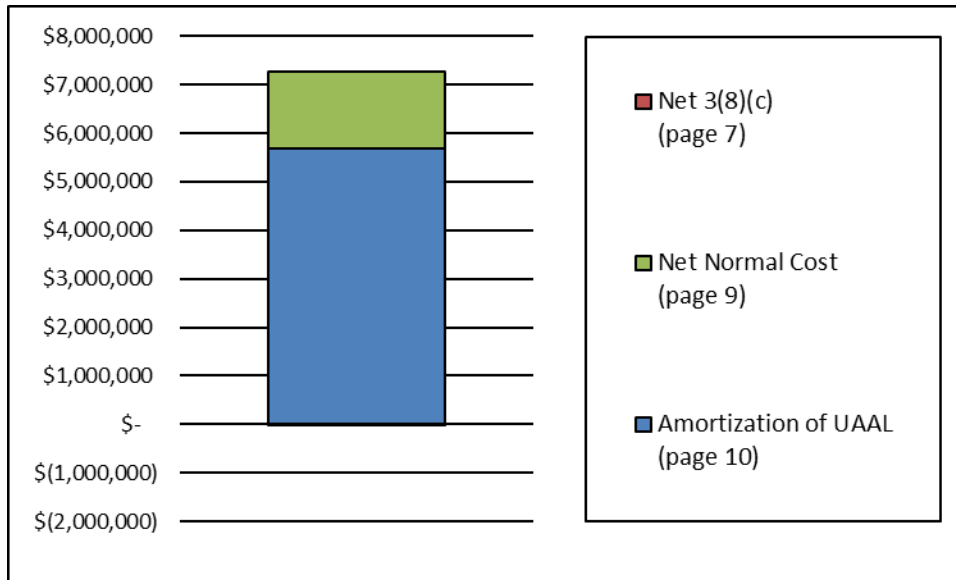


The funding objective of the plan is to fully fund the system while attempting to maintain a stable contribution amount for the upcoming fiscal year that is consistent with prior funding schedules or if employer finances allow it, to increase the contribution amount. This funding objective is being met.

The following pages discuss the components that make up the contribution, and how they are calculated from the actuarial results.

Components of Funding Appropriation

Components of the funding contribution are compared below, and discussed on the following pages.



Net 3(8)(c) Payments

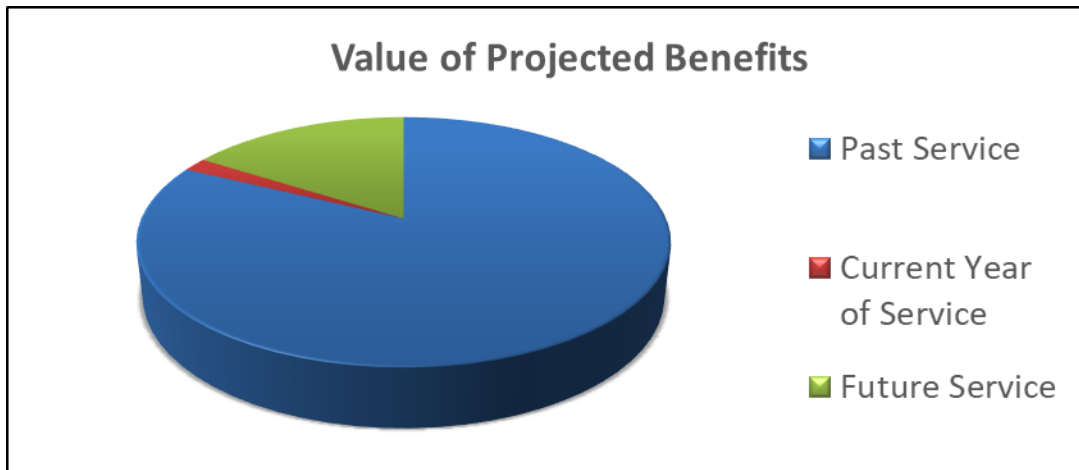
- 3(8)(c) payments are benefits which the Stoneham Retirement System pays to or receives from other retirement boards for service that a retiree had with a different retirement system.
- The net amount is equal to what Stoneham pays out, less what Stoneham receives from other systems, based on the most recent PERAC annual statement:

3(8)(c) payments made to other systems	\$	370,277
3(8)(c) payments received from other systems		<u>(381,839)</u>
Net payments	\$	(11,562)

- For the funding schedule, the amount of net payments is assumed to remain level in future years.

Development of Actuarial Results

Actuarial liabilities are calculated based on benefits that members are projected to receive in the future. The value of projected benefits is divided between past service, future service, and the current year of service.



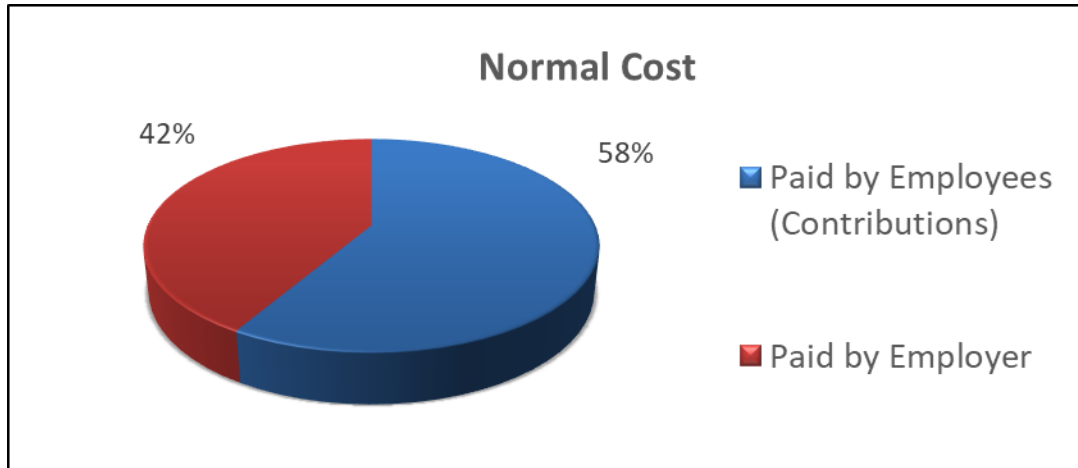
The actuarial funding method (in this case, entry age normal), assigns values to each of these periods of service.

- Past service: The Actuarial Accrued Liability (AAL), is the portion of the benefit value that is associated with past service; this can be thought of as the “price” of benefits already earned by members of the system.
- Current year: The “price” of benefits being earned during the current year is referred to as the Normal Cost (NC). This includes only the actives, as neither inactives nor retirees are earning any additional service.
- Future service: The amount for future service is not included in the liability, as those years of service have not yet been earned.

For retirees, the “past service” amount accounts for the entire value of their benefits; they have completed their careers, and will earn no more service during the current year or any future years.

Net Normal Cost

The entire Normal Cost is not borne by the System; note that a significant portion is paid by employee contributions. The portion of the Normal Cost not covered by employee contributions is the amount that must be paid through funding appropriations; this is the Net Normal Cost.



The Net Normal Cost as seen in the funding schedule is calculated by adjusting for timing, and adding in the administrative expense. The calculation is shown below, and compared to the covered payroll:

	January 1, 2022	% of Payroll*
Gross Normal Cost (GNC)	\$ 2,810,547	16.3%
Employees Contribution	<u>1,643,540</u>	9.6%
Net Normal Cost (NNC)	\$ 1,167,007	6.8%
Adjustment to beginning of Fiscal Year 2024**	79,653	
Administrative Expense	<u>334,577</u>	1.9%
Adjusted Net Normal Cost With Admin. Expense	\$ 1,581,237	

* Payroll paid in 2021 for employees as of January 1, 2022 is \$17,195,756. Payroll for new hires in 2021 was annualized.

** The NNC is adjusted from January 1, 2022 to Fiscal 2024 by rolling it forward with a salary increase factor of 4.50%.

Unfunded Liability

The Unfunded Actuarial Accrued Liability (UAAL) is the portion of the AAL that is not covered by the value of the plan assets.

This is adjusted from the date of the valuation to the date of the contribution (July 1, 2023) to produce the Unfunded Liability seen in Fiscal Year 2024 in the funding schedule.

The liability results were as follows:

	January 1, 2022
Actuarial Accrued Liability	
a. Active Members	\$ 50,290,803
b. Inactive Members	1,204,699
c. Retired Members and Beneficiaries	<u>81,373,965</u>
d. Total	\$ 132,869,467
Unfunded Actuarial Accrued Liability	
a. Actuarial Accrued Liability	\$ 132,869,467
b. Less Actuarial Value of Assets	<u>117,487,921</u>
c. Unfunded Actuarial Accrued Liability	\$ 15,381,547
d. Rollup to FY2024	<u>(3,841,054)</u>
e. Unfunded Actuarial Accrued Liability as of FY2024	\$ 11,540,493

In developing the funding schedule, we used a “fresh start” approach in which the UAAL (not counting Early Retirement Incentives) is amortized from scratch instead of maintaining the existing amortization amount and separately amortizing gains and losses. This can result in a schedule in which the changes in contribution amounts from year to year are more consistent.

The UAAL and funding ratio are measures of the plan’s funded status, which reflect the plan’s position as of January 1, 2022. We believe these measures, by themselves, are not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligations. However, we believe these measures, in conjunction with the plan’s funding schedule, are appropriate for assessing the amount of future contributions.

Active Liability by Decrement

An active member can incur liabilities for the Retirement System in one of four ways:

- They can retire (if eligible),
- They can become disabled and collect a disability benefit,
- They can die, or
- They can terminate service and withdraw their ASF balance or receive a deferred retirement benefit

Active members have a portion of their liability associated with each of these four outcomes. The Accrued Liability for active members is divided as follows:

Active Actuarial Accrued Liability	
Superannuation Retirement	\$ 45,478,553
Death	1,049,142
Disability	3,140,042
Withdrawal	<u>623,066</u>
TOTAL	\$ 50,290,803

Demographic Results

Actives	
a. Number	309
b. Annual Compensation	\$17,195,756
c. Average Annual Compensation	\$55,650
d. Average Attained Age	46.5
e. Average Past Service	11.0
Retired, Disabled and Beneficiaries	
a. Number	291
b. Total Benefits (excluding State COLA)	\$8,398,662
c. Average Benefits	\$28,861
d. Average Age	75.3
Inactives	
a. Number	116

- Total compensation changed by 6.2% over the prior valuation
 - Average annual compensation changed by 7.6%
 - Liability gain of \$634 thousand from salary experience

History of Demographic Statistics

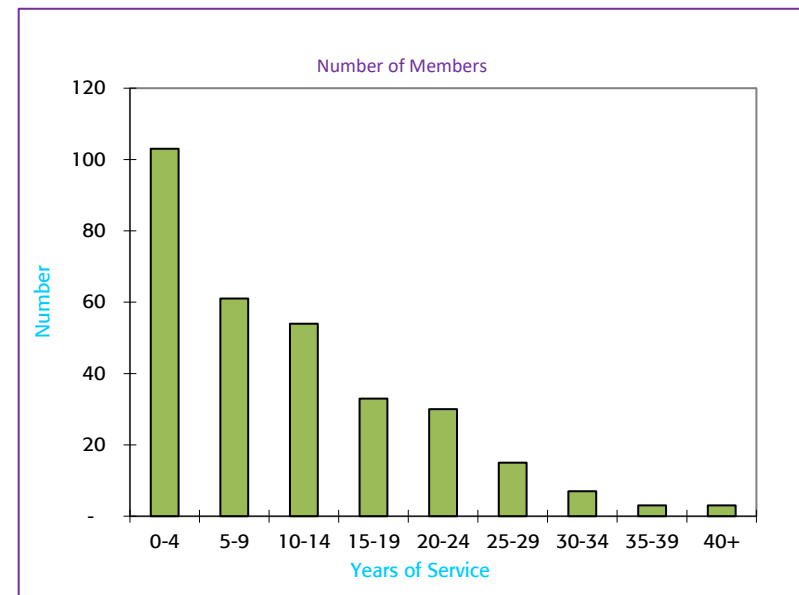
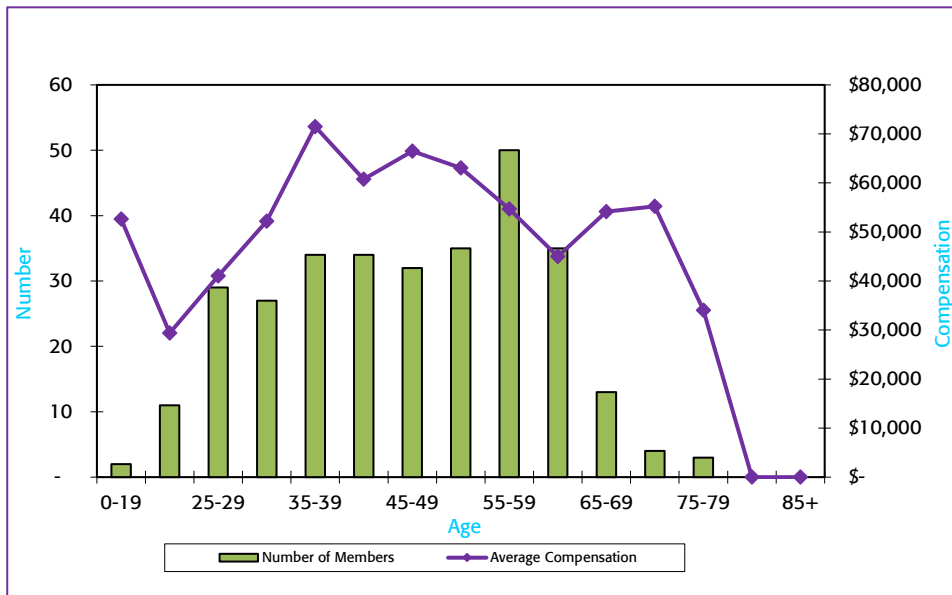
Valuation Year	Actives	Average Age	Average Past Service	Average Ann'l Pay
2022	309	46.5	11.0	\$55,650
2020	313	47.5	11.0	\$51,739
2018	284	49.1	12.6	\$51,559
2016	274	50.0	13.2	\$50,222
2014	273	49.9	12.9	\$47,029
2012	256	49.2	13.0	\$45,405
2011	268	N/A	N/A	\$44,015

- Both employee age and service have begun to decrease in recent years, following years of increases. This pattern has appeared in the experience of several systems in the Commonwealth. Average annual compensation has grown by 26.4% (2.2% annually) over the past eleven years.

Distribution of Plan Members as of January 1, 2022

ACTIVE MEMBERS

AGE	0-4 Years	5-9 Years	10-14 Years	15-19 Years	20-24 Years	25-29 Years	30-34 Years	35-39 Years	40 + Years	Total	Total Compensation	Average Compensation
0-19	2	-	-	-	-	-	-	-	-	2	\$ 105,275	\$ 52,638
20-24	11	-	-	-	-	-	-	-	-	11	\$ 323,126	\$ 29,375
25-29	28	1	-	-	-	-	-	-	-	29	\$ 1,190,277	\$ 41,044
30-34	13	11	3	-	-	-	-	-	-	27	\$ 1,409,398	\$ 52,200
35-39	9	11	11	3	-	-	-	-	-	34	\$ 2,431,018	\$ 71,501
40-44	13	5	8	6	2	-	-	-	-	34	\$ 2,065,024	\$ 60,736
45-49	4	4	8	5	11	-	-	-	-	32	\$ 2,127,705	\$ 66,491
50-54	7	6	7	4	3	7	1	-	-	35	\$ 2,206,278	\$ 63,037
55-59	9	12	8	9	4	4	4	-	-	50	\$ 2,735,240	\$ 54,705
60-64	6	8	5	4	7	2	1	1	1	35	\$ 1,575,221	\$ 45,006
65-69	1	2	4	-	3	2	-	1	-	13	\$ 704,187	\$ 54,168
70-74	-	1	-	1	-	-	1	-	1	4	\$ 220,954	\$ 55,239
75-79	-	-	-	1	-	-	-	1	1	3	\$ 102,053	\$ 34,018
80-84	-	-	-	-	-	-	-	-	-	-	\$ -	\$ -
85+	-	-	-	-	-	-	-	-	-	-	\$ -	\$ -
TOTAL	103	61	54	33	30	15	7	3	3	309	\$ 17,195,756	\$ 55,650



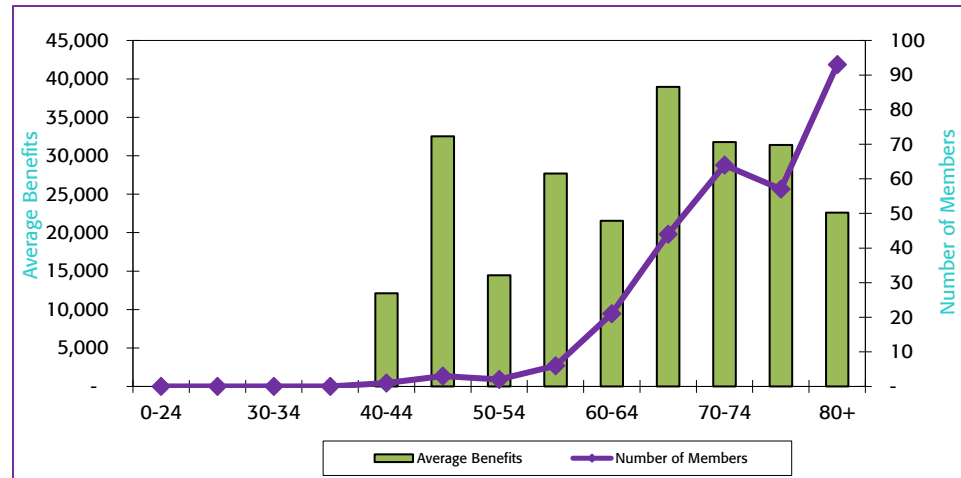
Distribution of Plan Members as of January 1, 2022

RETIRED MEMBERS

Retired Members and Beneficiaries			
Age	Number	Average Benefit	Total Benefit
0-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	1	12,103	12,103
45-49	2	23,461	46,922
50-54	1	17,075	17,075
55-59	5	26,689	133,446
60-64	21	21,554	452,638
65-69	40	38,562	1,542,482
70-74	58	30,615	1,775,643
75-79	51	30,143	1,537,273
80+	92	22,435	2,064,065
TOTAL	271	\$ 27,977	\$ 7,581,647

Disabled Members			
Age	Number	Average Benefit	Total Benefit
0-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	-	-	-
45-49	1	50,695	50,695
50-54	1	11,844	11,844
55-59	1	32,752	32,752
60-64	-	-	-
65-69	4	43,068	172,270
70-74	6	43,058	258,347
75-79	6	42,272	253,631
80+	1	37,477	37,477
TOTAL	20	\$ 40,851	\$ 817,016

Total			
Age	Number	Average Benefit	Total Benefit
0-24	-	-	-
25-29	-	-	-
30-34	-	-	-
35-39	-	-	-
40-44	1	12,103	12,103
45-49	3	32,539	97,617
50-54	2	14,459	28,918
55-59	6	27,700	166,197
60-64	21	21,554	452,638
65-69	44	38,972	1,714,752
70-74	64	31,781	2,033,991
75-79	57	31,419	1,790,904
80+	93	22,597	2,101,542
TOTAL	291	\$ 28,861	\$ 8,398,662



Benefits shown are net of State reimbursed COLA.

Assets

	Cash	\$	38,733.32
	Pooled Domestic Equity Funds		10,738,841.49
	Pooled International Equity Funds		9,437,037.03
	Pooled Global Equity Funds		29,373,887.35
	Pooled Domestic Fixed Income Funds		13,973,733.40
	Pooled International Fixed Income Funds		4,578,206.79
	Pooled Alternative Investments		6,076,097.39
	Pooled Real Estate Funds		10,813,590.38
	Hedge Funds		9,732,408.48
	PRIT FUND		<u>32,320,231.20</u>
A	Sub-Total:	\$	127,082,766.83
	Accounts Receivable	\$	21,094.18
	Accounts Payable		<u>(13,339.88)</u>
B	Sub-Total:	\$	7,754.30
	Market Value of Assets [(A) + (B)]	\$	127,090,521.13

- The asset allocation is approximately 27% fixed income, cash, receivables and payables and 73% equities, alternative investments, hedge funds and similar types of investments.
- Annual return in calendar 2020-2021: 11.82% vs. a 7.25% assumption.
 - \$10,245,466 net actuarial asset gain in Calendar Years 2020 through 2021

Five-Year Asset Smoothing

1. Market value of assets including receivable/payable as of 01/01/2022 \$127,090,521

2. Phase-in of asset gains and losses

	Plan Year (1)	Original Amount (2)	Percent Unrecognized (3)	Amount Unrecognized (2) x (3)
a.	2019	\$10,169,297	80%	\$8,135,438
b.	2018	\$76,169	60%	\$45,702
c.	2017	\$9,119,658	40%	\$3,647,863
d.	2016	(\$11,132,010)	20%	(\$2,226,402)
e.	2015	\$7,141,840	0%	\$0
f.	2014	\$802,925	0%	\$0
g.	Total	\$15,374,954		\$9,602,600

3. Valuation assets without corridor as of 01/01/2022 \$117,487,921
(1. - 2.g.)

4. Corridor Check

a. 85% of Market Value \$108,026,943
b. 115% of Market Value \$146,154,099

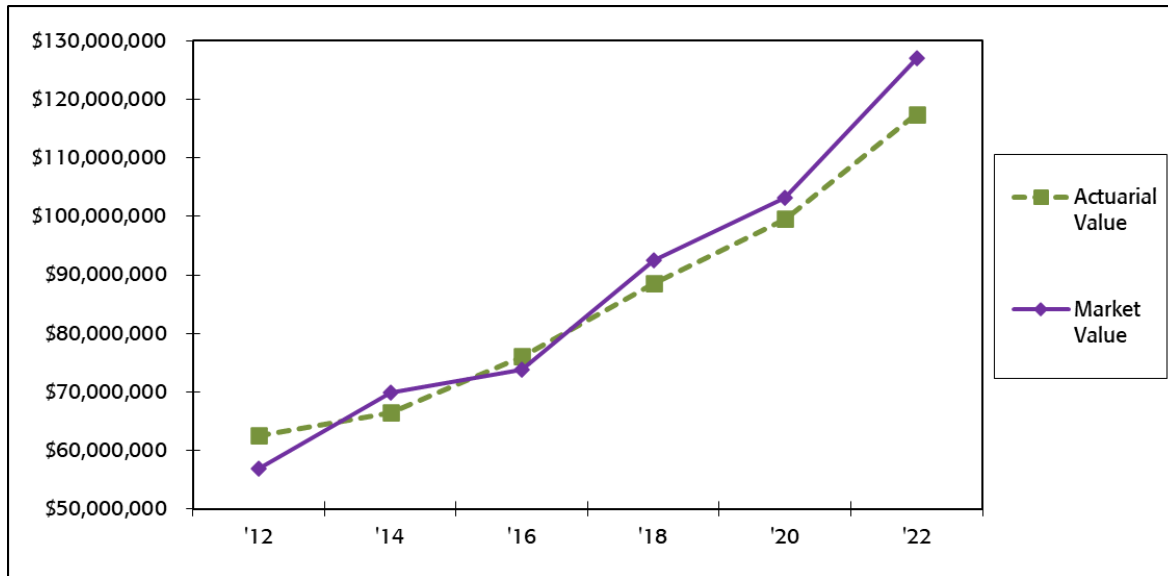
5. Valuation assets with corridor as of 01/01/2022 \$117,487,921
(3. within Corridor)

6. Calculation of return on valuation assets

a. Valuation assets as of 01/01/2020 \$99,596,067
b. ER contribs + EE contribs - Ben Pymts - Expenses \$(1,755,817)
c. Actual return on valuation assets \$19,647,670
5. - (6.a. + 6.b.)
d. Weighted value of valuation assets \$98,718,159
e. Return on valuation assets 19.90%
(6.c. / 6.d.)
f. Annualized return on assets 9.50%

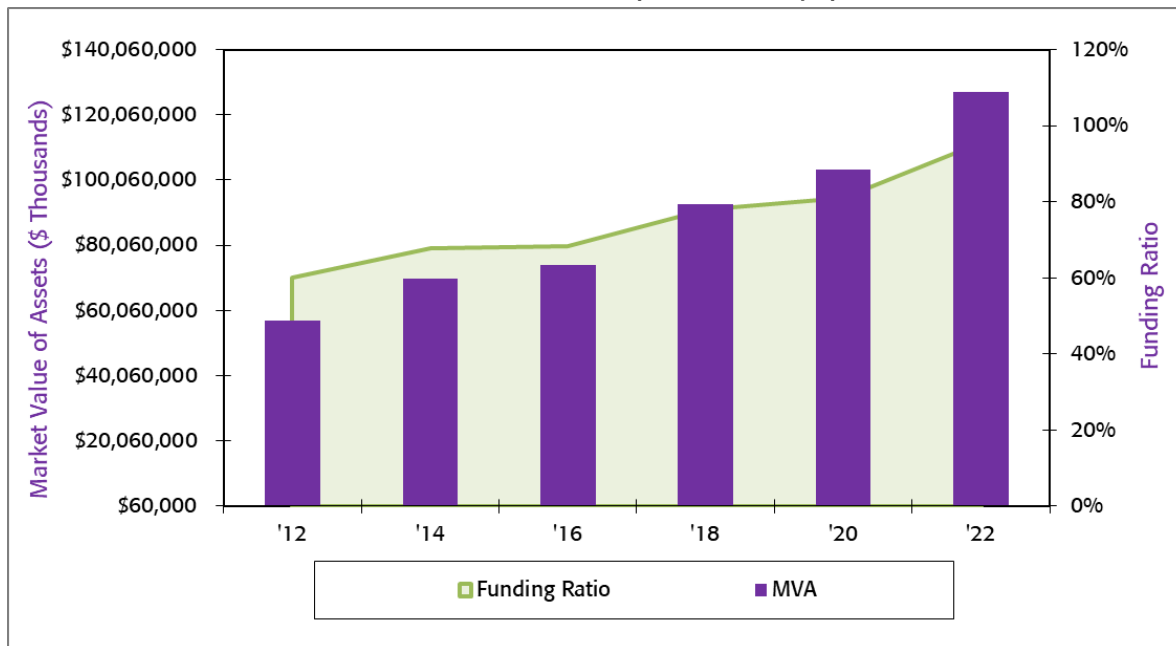
Asset Valuation Comparison

The following exhibit compares the assets with and without smoothing for the past six valuations.



Funding Ratio

The following displays the history of the funding ratio for the past six valuations, based on Market Value of Assets. The Market Value for each year is shown to accompany the funding ratio. We show the market value of assets as that is the amount of assets actually available to pay for benefits.



Risk

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as:

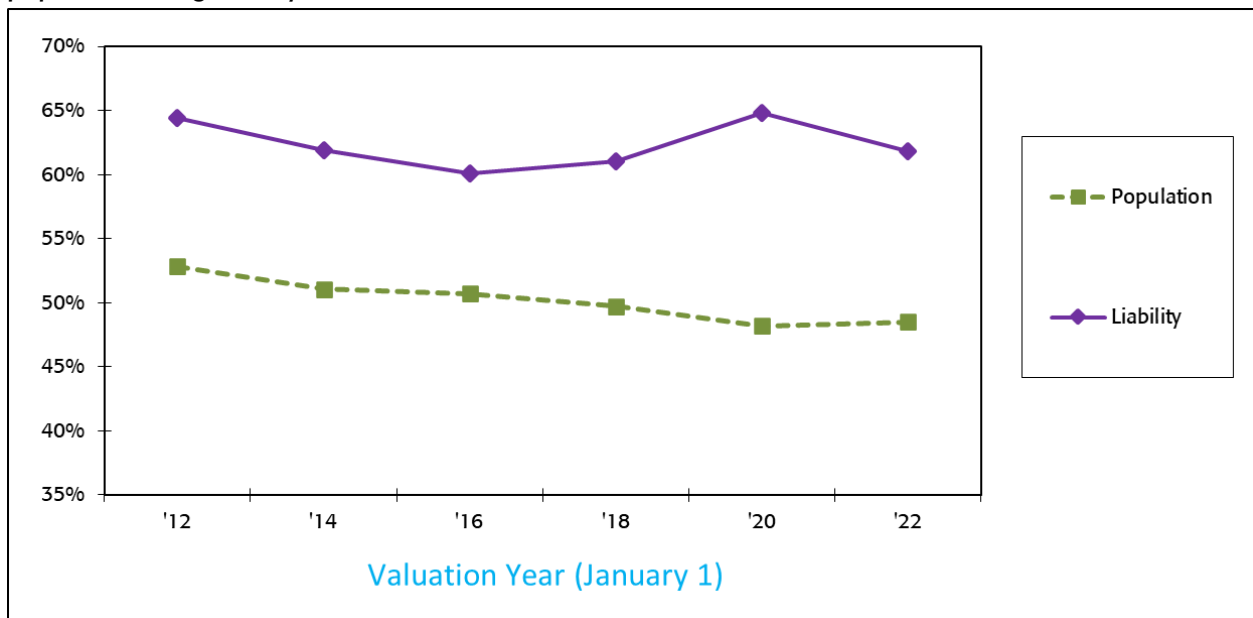
- Plan experience differing from that anticipated by the economic or demographic assumptions,
- Changes in economic or demographic assumptions,
- Increases or decreases expected as part of natural operation of the methodology used for these measurements such as additional contribution requirements based on the plan's funded status,
- Changes in plan provisions or applicable law.

As part of the valuation, we have not performed an analysis of the potential range of future measurements. GASB Statement 67 and 68 reports for the Stoneham Retirement System contain alternate results to measure the impact of increases or decreases in the discount rate.

Maturity

One important concern is the maturity of the system. Systems with a greater portion of their liability coming from current retirees whose benefits are already being paid are likely to experience greater impact from short-term asset experience, as high payouts in the near future mean that less of the current assets will be available to benefit from investment returns further in the future.

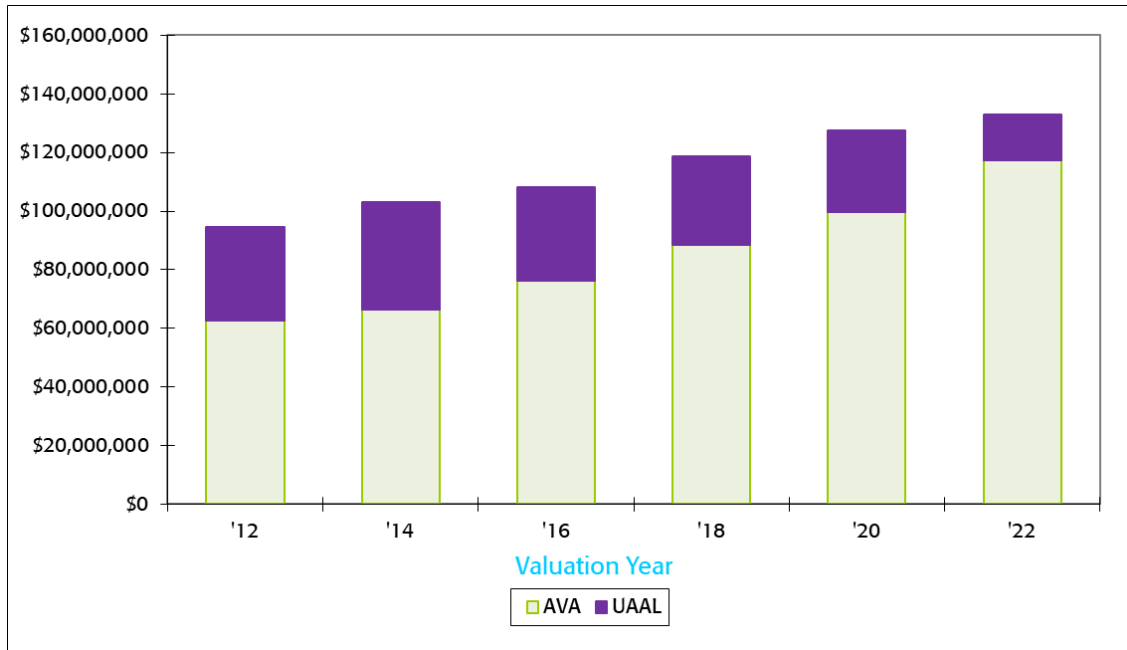
Below is a history of the retiree's percentage of the covered population, and liability. The retiree share of the accrued liability for Stoneham has hovered between 60% and 65% while the retiree share of the population has gradually decreased.



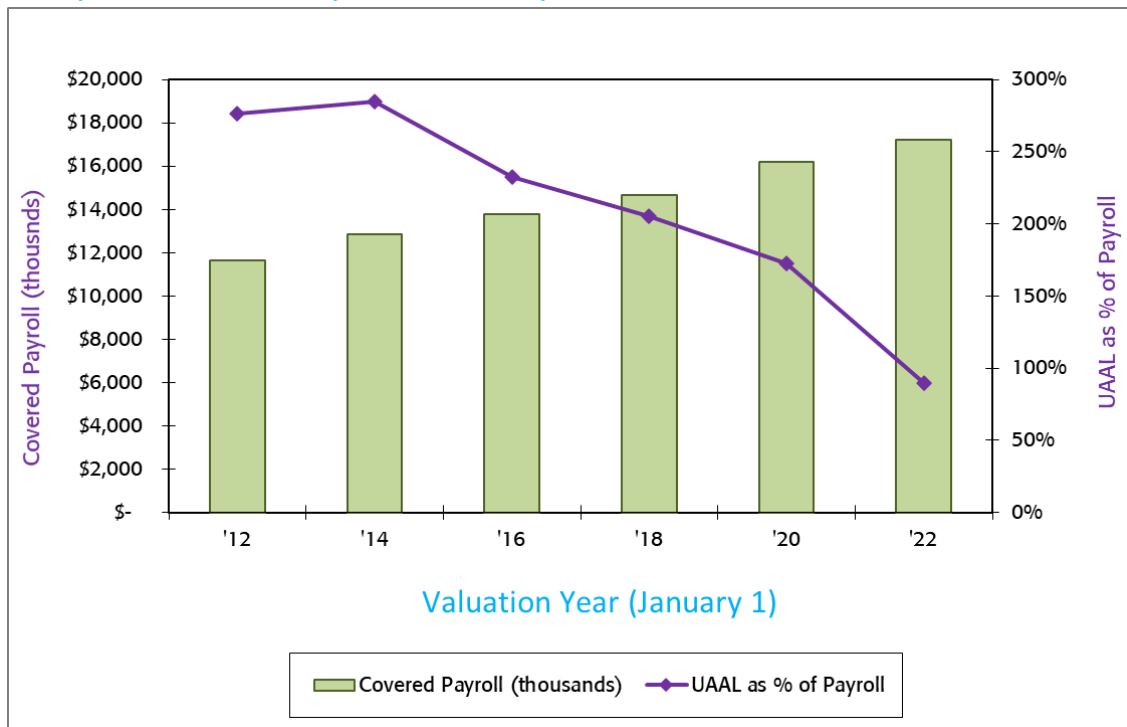
Historical Experience

The following charts display Stoneham's history of Actuarial Assets and Unfunded Liability; the second chart compares the unfunded liability to covered payroll.

History of Assets and Unfunded Liability



History of Unfunded Liability and Covered Payroll



Comparative Results

	January 1, 2022	January 1, 2020	Percentage Change
Funding			
Contribution for Fiscal 2024	\$7,252,723	\$7,470,305	-2.9%
Members			
■ Actives			
a. Number	309	313	-1.3%
b. Annual Compensation	\$17,195,756	\$16,194,373	6.2%
c. Average Annual Compensation	\$55,650	\$51,739	7.6%
d. Average Attained Age	46.5	47.5	-2.2%
e. Average Past Service	11.0	11.0	0.0%
■ Retired, Disabled and Beneficiaries			
a. Number	291	291	0.0%
b. Total Benefits*	\$8,398,662	\$8,541,242	-1.7%
c. Average Benefits*	\$28,861	\$29,351	-1.7%
d. Average Age	75.3	75.1	0.3%
■ Inactives			
a. Number	116	97	19.6%
Normal Cost			
a. Total Normal Cost as of January 1, 2022	\$2,810,547	\$2,491,752	12.8%
b. Less Expected Members' Contributions	<u>1,643,540</u>	<u>1,533,242</u>	7.2%
c. Normal Cost to be funded by the Municipality	\$1,167,007	\$958,510	21.8%
d. Adjustment to July 1, 2023	79,653	65,422	21.8%
e. Administrative Expense Assumption	<u>334,577</u>	<u>316,630</u>	5.7%
f. Normal Cost Adjusted to July 1, 2023	\$1,581,237	\$1,340,563	18.0%
Actuarial Accrued Liability			
a. Active Members	\$50,290,803	\$44,484,499	13.1%
b. Inactive Members	1,204,699	1,001,037	20.3%
c. Retired Members and Beneficiaries	<u>81,373,965</u>	<u>82,073,190</u>	-0.9%
d. Total	\$132,869,467	\$127,558,726	4.2%
Unfunded Actuarial Accrued Liability			
a. Actuarial Accrued Liability	\$132,869,467	\$127,558,726	4.2%
b. Less Actuarial Value of Assets	<u>117,487,921</u>	<u>99,596,067</u>	18.0%
c. Unfunded Actuarial Accrued Liability	\$15,381,547	\$27,962,659	-45.0%
d. Rollup to FY2024	<u>(3,841,054)</u>	<u>(1,918,295)</u>	
e. Unfunded Actuarial Accrued Liability as of FY2024	\$11,540,493	\$26,044,364	

* Excluding State reimbursed COLA

APPENDICES

Appendix A – Actuarial Methods and Assumptions

All assumptions and methodologies were selected by the Stoneham Retirement Board in conjunction with guidance provided by Stone Consulting, Inc.

Stone Consulting, Inc. was furnished member and financial data by the Stoneham Retirement System's administrative staff. Although examined under broad parameters for reasonableness, the data was not audited by the actuary. With the assistance of the staff of the Stoneham Retirement Board, we were able to develop a database sufficient for valuation purposes.

ASSUMPTION AND METHODOLOGY CHANGES SINCE PRIOR VALUATION

- Mortality: the mortality improvement scale was updated from MP-2019 to MP-2021, reducing the liability by \$395 thousand
- The discount rate was reduced from 7.25% to 7.00%, which increased the liability by \$3.2 million
- The COLA Base was increased from \$13,000 to \$15,000, increasing the liability by \$1.2 million
- All other assumptions and methods were maintained from the prior valuation.

ACTUARIAL METHODS

Actuarial Cost Method

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

The actuarial accrued liability represents the theoretical accumulation of all prior years' normal costs for the plan members as if the program had always been in effect. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over plan assets. The use of the Entry Age Normal actuarial funding method is consistent with the requirements of Chapter 32 of the Massachusetts General Laws.

Asset Valuation Method

Market Value of Assets, adjusted for payables and receivables, adjusted to phase in investment gains compared to the expected market value and losses evenly over five years (shown on page 14). The asset valuation method adjusts the results to no less than 85% and no more than 115% of the market value of assets adjusted for payables and receivables.

Fiscal Year Adjustment

The actuarial results are adjusted by the valuation interest rate and salary scale to the beginning of Fiscal Year 2024. The unfunded actuarial accrued liability is rolled forward with normal cost and further adjusted by anticipated contributions and interest.

Actuarial Methods and Assumptions (Continued)

ACTUARIAL ASSUMPTIONS

Valuation Date

January 1, 2022.

Investment Return

7.00% per year net of investment expenses.

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgement.

Regular Interest Rate Credited to Annuity Savings Account

2% per year.

Cost-of-Living Increases

A 3% COLA on the first \$15,000 of a member's retirement allowance is assumed to be granted every year.

Salary Increases

Select and Ultimate assumption.

- 4.25% ultimate rate
- Group 4 receive 8.75% increases for the first 5 years of service
- Other employees receive 6.25% increases for the first 8 years of service

Step increases are assumed to be part of the salary increase assumption. The total payroll is assumed to increase at 4.50% per year.

The salary increase assumption reflects prior experience including PERAC's 2002 local experience study, current expectations, and professional judgement.

Actuarial Methods and Assumptions (Continued)

Credited Service

All service is assumed to be due to employment with the municipality.

Family Composition

Members assumed married with 2 dependent children – one male and one female both age 15; age difference between member and spouse assumed to be 3 years (the male being the older).

Administrative Expenses

Estimated budgeted amount of \$334,577 for the Fiscal Year 2024 is added to the Normal Cost. The administrative expense does not include investment manager and custodial fees. These fees are considered part of the interest rate assumption that is net of fees.

Net 3(8)(c)

Net 3(8)(c) payments are assumed to be the same level as the past calendar year for all future years.

Contribution Timing

Contributions are assumed to be made at the beginning of the fiscal year.

In-Service Disability and Death

Both Disability and In-Service Death are assumed to be 55% ordinary and 45% accidental for Group 1 and 2, and 10% ordinary and 90% accidental for Group 4.

Withdrawal Prior to Retirement

The rates shown at the following sample ages illustrate the withdrawal assumption. Withdrawal rates are set to zero if the retirement rate at that age is nonzero.

Rate of Withdrawal		
Service	Group 1 and 2	Group 4
0	15%	1.5%
1	12%	1.5%
2	10%	1.5%
3	9%	1.5%
4	8%	1.5%
5	7.6%	1.5%
10	5.4%	1.5%
15	3.3%	0.0%
20	2.0%	0.0%
25	1.0%	0.0%
30+	0.0%	0.0%

Disability Prior to Retirement

The rates shown at the following sample ages illustrate the assumption regarding the incidence of disability:

Rate of Disability		
Age	Group 1 and 2	Group 4
20	0.01%	0.10%
25	0.02%	0.20%
30	0.03%	0.30%
35	0.06%	0.30%
40	0.10%	0.30%
45	0.15%	1.00%
50	0.19%	1.25%
55	0.24%	1.20%
60	0.28%	0.85%

Actuarial Methods and Assumptions (Continued)

Rates of Retirement

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

Age	Group 1 & 2 Male	Group 1 & 2 Female	Group 4	Hired after 4/1/2012		
				Group 1 & 2 Male	Group 1 & 2 Female	Group 4
50	1%	1.5%	2%	0%	0%	0%
51	1%	1.5%	2%	0%	0%	0%
52	1%	2.0%	2%	0%	0%	0%
53	1%	2.5%	2%	0%	0%	0%
54	2%	2.5%	7.5%	0%	0%	0%
55	2%	5.5%	15%	0%	0%	10%
56	2.5%	6.5%	10%	0%	0%	7%
57	2.5%	6.5%	10%	0%	0%	20%
58	5%	6.5%	10%	0%	0%	10%
59	6.5%	6.5%	15%	0%	0%	15%
60	12%	5%	20%	25%	30%	20%
61	20%	13%	20%	20%	13%	20%
62	30%	15%	25%	30%	15%	25%
63	25%	12.5%	25%	25%	12.5%	25%
64	22%	18%	30%	22%	18%	30%
65	40%	15%	100%	40%	15%	100%
66	25%	20%	N/A	25%	20%	N/A
67	25%	20%	N/A	25%	20%	N/A
68	30%	25%	N/A	30%	25%	N/A
69	30%	20%	N/A	30%	20%	N/A
70	100%	100%	N/A	100%	100%	N/A

Mortality

RP-2014 table adjusted to 2006 and projected generationally with MP-2021 (sex-distinct). During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.

Mortality for disabled retirees follows the same table as non-disabled retirees, set forward 2 years. Death is assumed to be due to the same cause as the disability 50% of the time.

Appendix B – Summary of Principal Provisions

1. PARTICIPANT

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

- Group 1: general employees
- Group 2: employees in specified hazardous occupations (e.g., electricians)
- Group 4: police and firefighters

2. MEMBER CONTRIBUTIONS

Member contributions vary depending upon date hired as follows:

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

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

3. PAY

a. Pay

Gross regular compensation excluding bonuses, overtime, severance pay, unused sick pay, and other similar compensation.

b. Average Pay

The average of pay during the three consecutive years that produce the highest average or, if greater, during the last three years (whether or not consecutive) preceding retirement. For members hired after April 1, 2012, five-year averages will be used.

4. CREDITED SERVICE

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

Summary of Principal Provisions (Continued)

5. SERVICE RETIREMENT

a. Eligibility

Hired prior to April 2, 2012:

- Attainment of age 55 and completion of ten years of credited service,
- or at any age with completion of 20 years of service.
- If hired prior to 1978 or a member of Group 4, the completion of ten years of service is not required.

Hired after April 1, 2012:

- Group 1 – Age 60 and Completion of 10 years of credited service;
- Group 2 – Age 55 and completion of 10 years of service;
- Group 4 – Age 55.

b. Retirement Allowance

Determined as the product of the member's benefit percentage, average pay and credited service, where the benefit percentage is shown below (maximum allowance of 80% of average pay):

Benefit Percentage	Group 1	Group 2	Group 4
2.5%	65+	60+	55+
2.4	64	59	54
2.3	63	58	53
2.2	62	57	52
2.1	61	56	51
2.0	60	55	50
1.9	59	N/A	49
1.8	58	N/A	48
1.7	57	N/A	47
1.6	56	N/A	46
1.5	55	N/A	45
Hired after April 1, 2012*			
2.5%	67+	62+	57+
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

*Reduction is .125% for each year early instead of .15% per year for employees with over 30 years of service.

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

Summary of Principal Provisions (Continued)

6. DEFERRED VESTED RETIREMENT

a. Eligibility

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

b. Retirement Allowance

Determined in the same manner as "Service Retirement" section above with the member eligible to start collecting a benefit at age 55, (or age 57 for post-April 1, 2012 hires) or defer until later at his or her discretion. If a member chooses, his or her contributions with interest may be withdrawn. The amount of interest he or she will receive depends on length of service and whether or not the termination of employment was voluntary.

7. ORDINARY DISABILITY RETIREMENT

a. Eligibility

Non-job related disability after completion of 10 years of credited service.

b. Retirement Allowance

Determined in the same manner as "Service Retirement" section and calculated as if the member had attained age 55 (or age 57 for those hired after April 1, 2012), if younger. Veterans receive 50% of pay (during final year) plus an annuity based on accumulated member contributions with interest.

8. ACCIDENTAL DISABILITY RETIREMENT

a. Eligibility

Disabled as a result of an accident in the performance of duties. No age or service requirement.

b. Retirement Allowance

72% of pay plus an annuity based on accumulated member contributions with interest. Also, a dependent's allowance per year for each child. Total allowance not to exceed 100% of pay (75% for members hired after 1987).

Summary of Principal Provisions (Continued)

9. NON-OCCUPATIONAL DEATH

a. Eligibility

Dies while in active service, but not due to occupational injury. 2 years of service.

b. Retirement Allowance

Benefit as if Option C had been elected (see below) and member had attained age 55 (or age 57 for those hired after April 1, 2012) if younger.

Minimum monthly benefits provided as follows:

- spouse - \$500,
- first child - \$120,
- each additional child - \$90

10. OCCUPATIONAL DEATH

a. Eligibility

Dies as a result of an occupational injury.

b. Benefit Amount

72% of pay plus refund of annuity savings fund balance. In the case of an accidental disability retiree who dies of the same cause, the beneficiary receives 72% of the last 12 months salary or the current pension amount, whichever is greater.

11. COST-OF-LIVING INCREASES

An increase of up to 3% applied to the first \$15,000 of annual benefit. Funded by the Employer from Fiscal Year 1999. Percentage increase is voted on each year by the Retirement Board. Cost-of-living increases granted during Fiscal Year 1982 through Fiscal 1998 are reimbursed by the Commonwealth.

12. OPTIONAL FORMS OF PAYMENT

- Option A: Allowance payable monthly for the life of the member.
- Option B: Allowance payable monthly for the life of the member with a guarantee of remaining member contributions with interest.
- Option C: Allowance payable monthly for the life of the member with 66-2/3% continuing to the member's beneficiary upon the member's death. If the beneficiary predeceases the member, the allowance amount "pops up" to the non-reduced amount.

Appendix C – Glossary of Terms

- **Actuarial Accrued Liability**
The portion of the Present Value of Benefits that is attributable to past service.
- **Actuarial Value of Assets**
The value of assets based on the asset valuation method shown in the Actuarial Methods and Assumptions section of this report.
- **Actuarial Assumptions**
Estimates are made as to the occurrence of certain events that determine the level of benefits to be paid and how long they will be provided. The more important actuarial assumptions include the investment return on assets, salary increases and the rates of turnover, disability, retirement and mortality.
- **Actuarial Cost Method**
The procedure that is used to allocate the present value of benefits between the liability that is attributable to past service (Actuarial Accrued Liability) and that attributable to future service.
- **Funding Ratio**
The percentage of the accrued liability that is covered by the Actuarial Value of Assets.
- **GASB**
Government Accounting Standards Board (issues guidance for disclosure of retirement system liabilities).
- **Normal Cost**
The portion of the Present Value of Benefits that is attributable to benefits to be earned in the coming year.
- **PERAC**
Public Employee Retirement Administration Commission, a division of the State government which has regulatory authority over the administration of the retirement system.
- **Present Value of Benefits**
Represents the dollar value today of all benefits expected to be earned by current members if all actuarial assumptions are exactly realized.
- **PRIT**
Pension Reserves Investment Trust Fund is the state controlled and administered fund for the investment of assets for members of the retirement system.
- **Unfunded Actuarial Accrued Liability**
That portion of the Actuarial Accrued Liability not covered by System Assets.

■ Stoneham Retirement Board
Actuarial Valuation as of January 1, 2022

PERAC Information Disclosure

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2022

The normal cost for employees on that date was:	\$1,643,540	9.6% of payroll
The normal cost for the employer was:	\$1,167,007	6.8% of payroll

The actuarial liability for active members was:	\$50,290,803
The actuarial liability for retired members was (includes inactives):	\$82,578,664
Total actuarial accrued liability:	\$132,869,467
System assets as of that date (\$127,090,521.13 Market Value):	\$117,487,921
Unfunded actuarial accrued liability:	\$15,381,547

The ratio of system's assets to total actuarial liability was:	88%
--	-----

As of that date the total covered employee payroll was:	\$17,195,756
---	--------------

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

Investment Return:	7.00% per annum
Rate of Salary Increase:	Select and ultimate rate (4.25% ultimate rate)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2022	\$117,488	\$132,869	\$15,381	88%	\$17,196	89%
1/1/2020	\$99,596	\$127,559	\$27,963	78%	\$16,194	173%
1/1/2018	\$88,527	\$118,578	\$30,051	75%	\$14,643	205%
1/1/2016	\$76,069	\$108,031	\$31,963	70%	\$13,761	232%
1/1/2014	\$66,246	\$102,977	\$36,551	65%	\$12,839	285%