Newton Contributory Retirement System

Actuarial Valuation and Review

As of January 1, 2020

Segal

Segal

116 Huntington Ave., 8th Floor
Boston, MA 02116
segalco.com
T 617.424.7300

June 17, 2020

Retirement Board
Newton Contributory Retirement System
1000 Commonwealth Ave
Newton Centre, MA 02459-1449

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2020. It summarizes the actuarial data used in the valuation, analyzes the preceding year's experience, and establishes the funding requirements for fiscal 2021 and later years.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the 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 Kathleen A. Riley. 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 Board are reasonably related to the experience of and the expectations for the Newton Contributory Retirement System

We look forward to reviewing this report with you 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

Table of Contents

Section 1: Actuarial Valuation Summary 4
- Purpose and basis 4
- Valuation highlights 5
- Summary of key valuation results 7
- Important information about actuarial valuations 8

Section 2: Actuarial Valuation Results 10
- Participant data 10
- Actuarial experience 16
- Non-investment experience 20
- Actuarially determined contribution 23
- Funding schedule 24
- Risk 25

Section 3: Supplemental Information 27
- Exhibit A: Table of Plan Coverage 27
- Exhibit B: Participants in Active Service as of December 31, 2019 by Age, Years of Service, and Average Payroll 28
- Exhibit C: Summary Statement of Income and Expenses on a Market Value Basis 29
- Exhibit D: Department Breakouts 30
- Exhibit E: Cashflow Forecast 33
- Exhibit F: Definition of Pension Terms 34

Section 4: Actuarial Valuation Basis 38
- Exhibit I: Actuarial Assumptions and Actuarial Cost Method 38
- Exhibit II: Summary of Plan Provisions 44

Section 1: Actuarial Valuation Summary

Purpose and basis

This report was prepared by Segal to present a valuation of the Newton Contributory Retirement System as of January 1, 2020. 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, 2019 provided by the staff of the Retirement System;
- The assets of the Plan as of December 31, 2019, 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, 2019 for the Retirement System is provided in a separate report.

Valuation highlights

1. It is important to note that this actuarial valuation is based on plan assets as of December 31, 2019. Due to the COVID-19 pandemic, market conditions have changed significantly since the valuation date. The System's actuarial status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. While it is impossible to determine how the markets will perform over the next several months, and how that will affect the results of next year's valuation, Segal is available to prepare projections of potential outcomes upon request.
2. Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the unfunded actuarial accrued liability and the principal balance. The funding policy adopted by the Newton Contributory Retirement Board meets this standard and funds the unfunded actuarial accrued liability of the plan by June 30, 2030.
3. The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 54.94%, compared to the prior year funded ratio of 52.64%. 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 56.10%, compared to 50.26% as of the prior valuation date. These measurements are not necessarily appropriate for assessing the sufficiency of assets to cover the estimated cost of settling the Newton Contributory Retirement System's benefit obligation or the need for or the amount of future contributions.
4. During the plan year ended December 31, 2019, the market value rate of return was 15.49%. The rate of return on the actuarial value of assets (which gradually recognizes market fluctuations) for the plan year ending December 31, 2019 was 8.01%. The actuarial value of assets as of December 31, 2019 was $386.6 million, or 97.94% of the market value of assets of $394.7 million (as reported in the Annual Statement). As of December 31, 2018, the actuarial value of assets was 104.72% of the market value of assets.
5. The investment experience in the past years has only been partially recognized in the actuarial value of assets. As the deferred net gain of $8.1 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.*
6. With this valuation, we have increased the administrative expense assumption from $365,000 for calendar year 2019 to $415,000 for calendar year 2020 and decreased the allowance for net (3)(8)(c) payments from $250,000 to $200,000. The combined administrative expenses plus net (3)(8)(c) allowance is unchanged at $615,000.
7. The unfunded liability was expected to decrease by $4.2 million from $322.1 million as of January 1, 2019 to $317.9 million as of January 1, 2020. The actual unfunded liability as of January 1, 2020 was $317.0 million, $0.9 million lower than expected. The

experience gain was primarily due to the investment gain described above. Other sources of gains and losses are discussed in Section 2.

8. The funding schedule included in this report and the prior valuation report each fully fund the System by June 30, 2030 if all assumptions are met. In the funding schedule included in this report, the fiscal 2021 appropriation has been lowered from the budgeted amount of $34,004,897 to $32,515,631, as approved by the Board. The fiscal 2021 appropriation is $37,269,367. The appropriation increases 9.60% per year thereafter.

9. 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 Newton Contributory Retirement System's future financial condition, but have included a brief discussion of some risks that may affect the System in *Section 2*. A more detailed assessment would provide the Board with a better understanding of the inherent risks.

Summary of key valuation results

		2020	2019
Contributions for fiscal year beginning July 1:	• Actuarially Determined Contributions for fiscal year 2021 and 2020	$32,515,631	$31,026,365
	• Actuarially Determined Contributions for fiscal year 2022 and 2021	37,269,367	34,004,897
Actuarial accrued liability for plan year beginning January 1:	• Retired participants and beneficiaries	$407,894,063	$386,677,341
	• Inactive vested participants	3,968,912	3,599,577
	• Inactive participants due a refund of employee contributions	3,859,520	4,062,048
	• Active participants	287,827,561	285,758,932
	• Total	703,550,056	680,097,898
	• Normal cost including administrative expenses and allowance for net 3(8)(c) payments for plan year beginning January 1	15,536,201	15,279,125
Assets for plan year beginning January 1:	• Market value of assets (MVA)	$394,676,536	$341,843,096
	• Actuarial value of assets (AVA)	386,550,933	357,991,897
	• Actuarial value of assets as a percentage of market value of assets	97.94%	104.72%
Funded status for plan year beginning January 1:	• Unfunded actuarial accrued liability on market value of assets	$308,873,520	$338,254,802
	• Funded percentage on MVA basis	56.10%	50.26%
	• Unfunded actuarial accrued liability on actuarial value of assets	$316,999,123	$322,106,001
	• Funded percentage on AVA basis	54.94%	52.64%
Key assumptions	• Net investment return	7.25%	7.25%
	• Long-term wage inflation rate	2.75%	2.75%
Demographic data for plan year beginning January 1:	• Number of retired participants and beneficiaries	1,339	1,332
	• Number of inactive vested participants	34	34
	• Number of inactive participants due a refund of employee contributions	514	531
	• Number of active participants	1,611	1,605
	• Total payroll	$102,912,637	$100,614,192
	• Average payroll	63,881	62,688

Notes:
Payroll figures are for the prior year and reflect annualized salaries for participants hired during the year.
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.
Calendar year 2018 payroll figures were increased by 19.0% for superior officers and by 1.5% for patrolmen to reflect unsettled bargaining contracts, and were decreased by 0.7% for school custodians to reflect retroactive contract settlements.

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:

Plan of benefits	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.
Participant data	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.
Assets	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.
Actuarial assumptions	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:

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

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

The Actuarial Valuation and Review considers the number and demographic characteristics of covered participants, including active participants, inactive vested participants, retired participants and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

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

Participant Population: 2010 – 2019

Year Ended December 31	Active Participants	Inactive Vested Participants	Retired Participants and Beneficiaries	Total Non-Actives	Ratio of Non-Actives to Actives
2010	1,669	574	1,312	1,886	1.13
2011	1,610	561	1,319	1,880	1.17
2012	1,616	547	1,318	1,865	1.15
2013	1,666	542	1,327	1,869	1.12
2014	1,723	604	1,317	1,921	1.11
2015	1,732	622	1,305	1,927	1.11
2016	1,633	655	1,310	1,965	1.20
2017	1,581	616	1,315	1,931	1.22
2018	1,605	565	1,332	1,897	1.18
2019	1,611	548	1,339	1,887	1.17

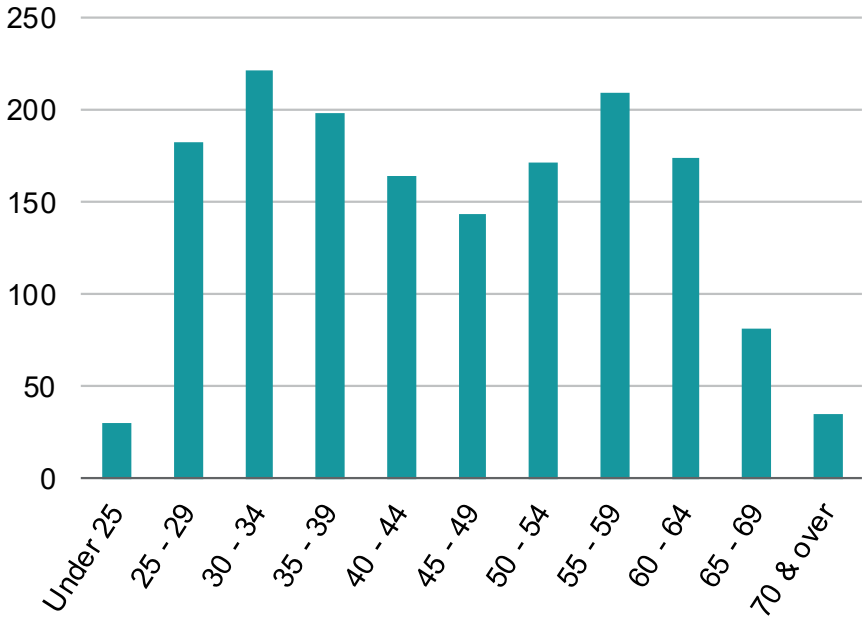
Active participants

Plan costs are affected by the age, years of service and payroll of active participants. In this year's valuation, there were 1,611 active participants with an average age of 46.0, average years of service of 11.8 years and average payroll of $63,881. The 1,605 active participants in the prior valuation had an average age of 46.1, average service of 11.8 years and average payroll of $62,688.

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

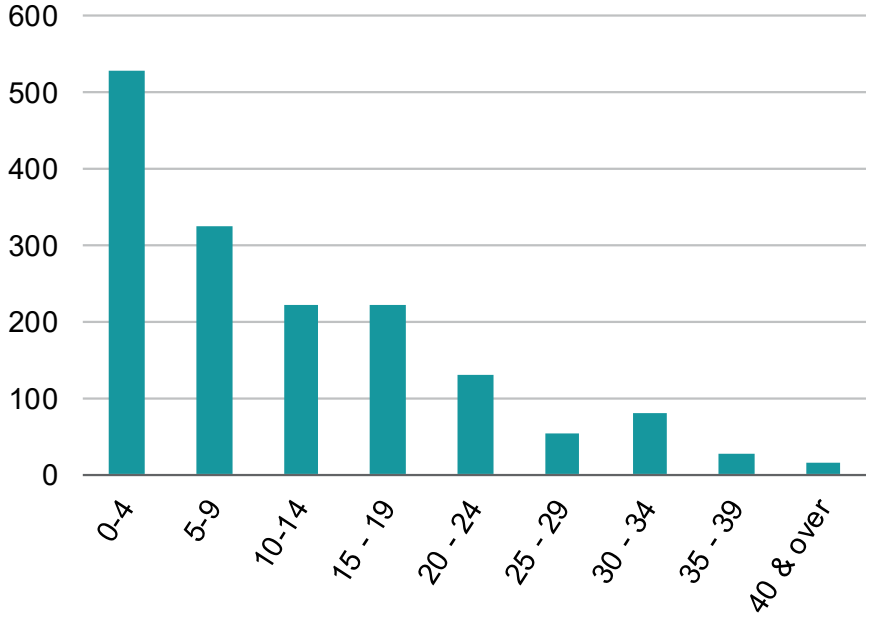
Distribution of Active Participants as of December 31, 2019

by Age



Average age	46.0
Prior year average age	46.1
Difference	-0.1

by Years of Service



Average years of service	11.8
Prior year average years of service	11.8
Difference	0.0

Inactive participants

In this year's valuation, there were 34 participants with a vested right to a deferred or immediate vested benefit and 514 participants entitled to a return of their employee contributions.

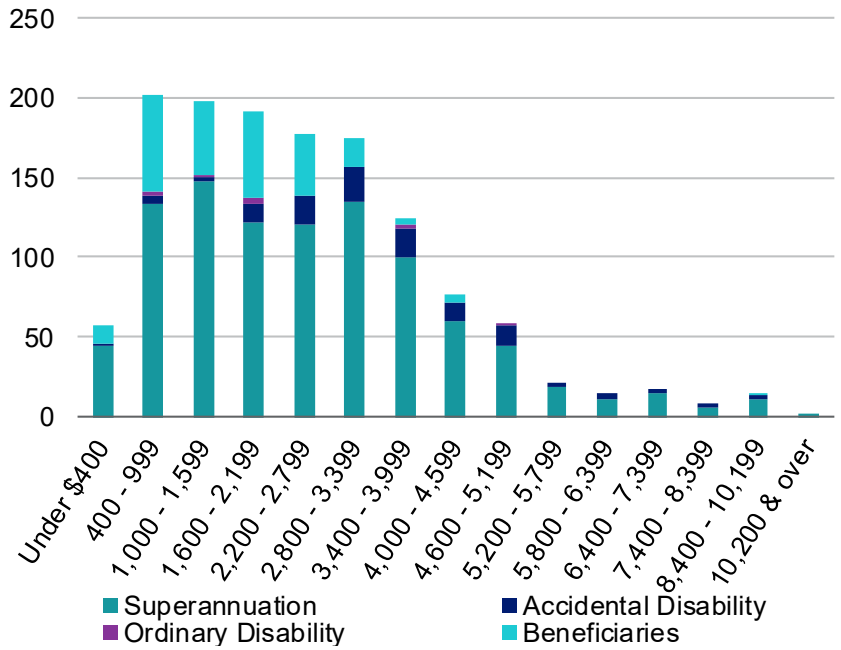
Retired participants and beneficiaries

As of December 31, 2019, 1,100 retired participants and 239 beneficiaries were receiving total monthly benefits of $3,383,962, excluding COLAs resimbursed by the Commonwealth. For comparison, in the previous valuation, there were 1,099 retired participants and 233 beneficiaries receiving monthly benefits of $3,227,931, excluding COLAs resimbursed by the Commonwealth.

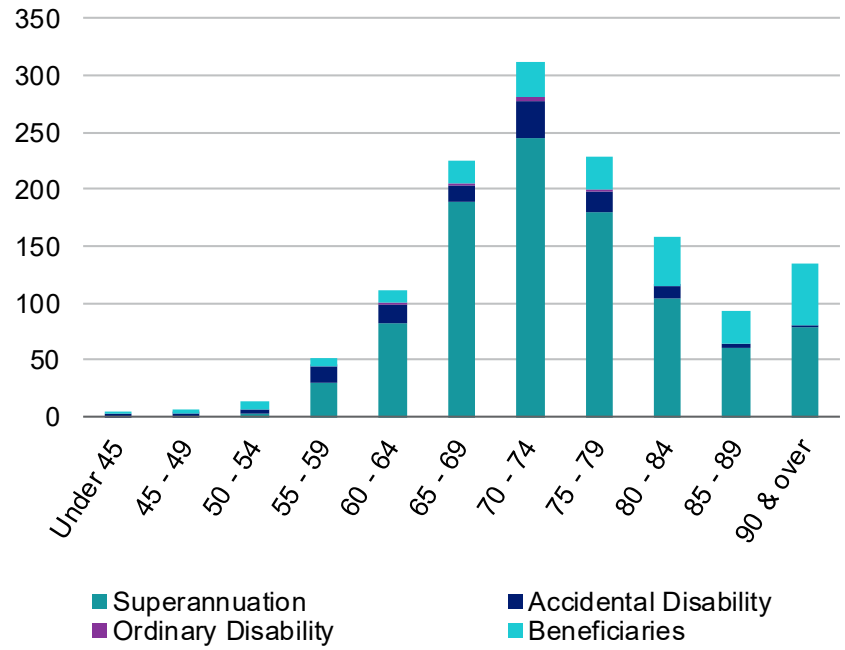
As of December 31, 2019, the average monthly benefit for retired participants and beneficiaries is $2,527, compared to $2,423 in the previous valuation. The average age for retired participants and beneficiaries is 74.5 in the current valuation, compared with 74.6 in the prior valuation.

Distribution of Pensioners and Beneficiaries as of December 31, 2019

by Type and Monthly Amount



by Type and Age

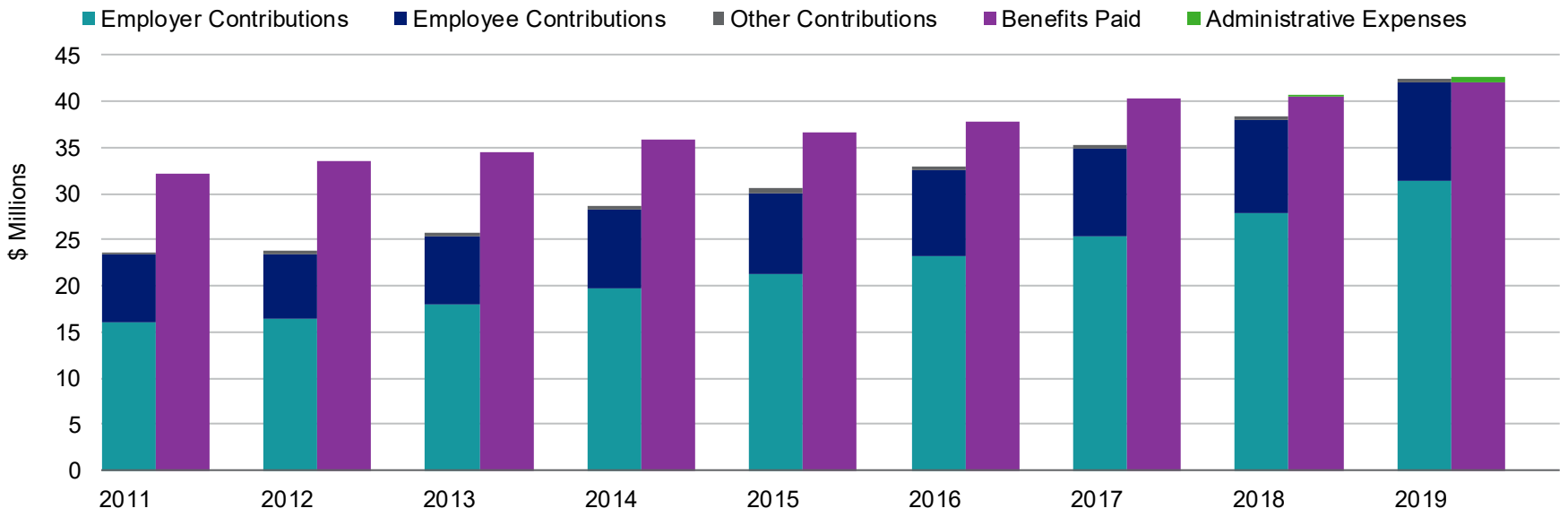


Financial information

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 – 2019



Notes:
Excludes administrative expenses and administrative expense appropriation prior to 2019.

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.

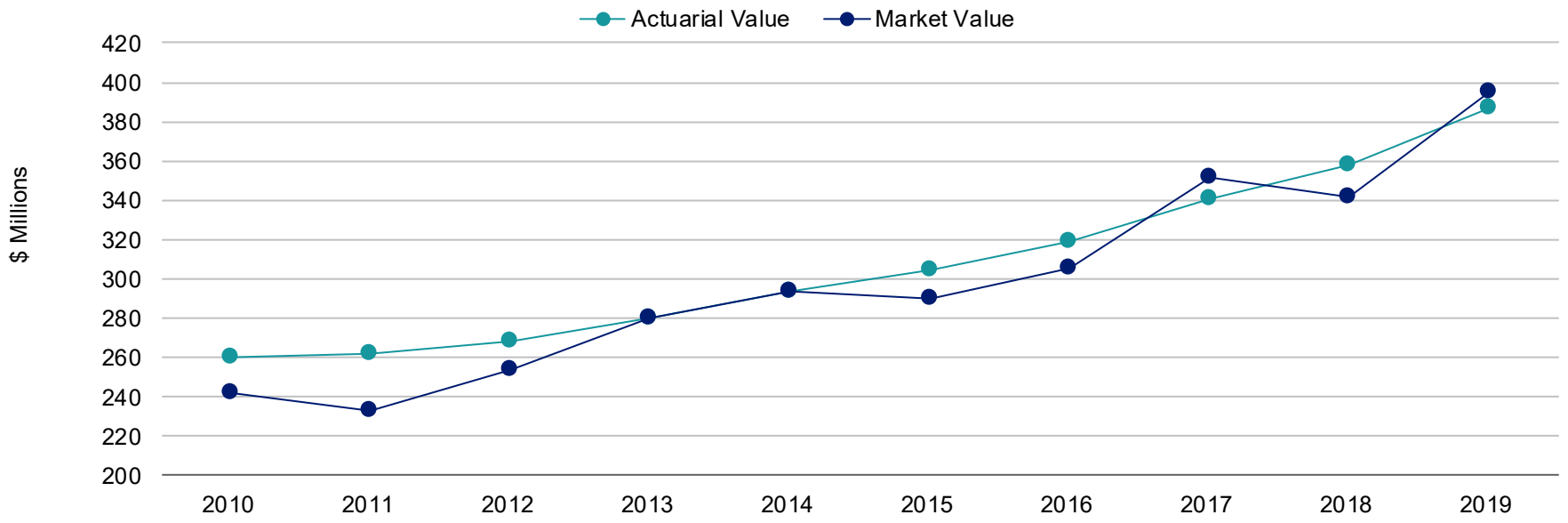
Determination of Actuarial Value of Assets for Year Ended December 31, 2019

1	Actuarial value of assets as of December 31, 2018	$357,991,897
2	Contributions less benefit payments and expenses	-100,276
3	Expected investment income on **(1)** and **(2)**	25,950,778
4	Preliminary actuarial value of assets: **(1) + (2) + (3)**	383,842,399
5	Market value of assets, December 31, 2019	394,676,536
6	Adjustment toward market value: 25% of **[(5) - (4)]**	2,708,354
7	Adjustment to be within 20% corridor	0
8	Final actuarial value of assets as of December 31, 2019: **(4) + (6) + (7)**	386,550,933
9	Actuarial value as a percentage of market value: **(8) ÷ (5)**	97.94%
10	Amount deferred for future recognition: **(5) - (8)**	$8,125,603

Section 2: Actuarial Valuation Results

Both the actuarial value and market value of assets are representations of the Plan'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 Plan'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 as of December 31, 2010 – 2019



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 total gain is $893,624, which includes $2,708,534 from investment gains and $1,814,910 in losses from all other sources. The net experience variation from individual sources other than investments was 0.3% 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, 2019

1	Net gain from investments	$2,708,534
2	Net loss from administrative expenses and net 3(8)(c) payments	-84,842
3	Net loss from other experience	-1,730,068
4	Net experience gain: **1 + 2 + 3**	$893,624

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 Plan's investment policy. The rate of return on the market value of assets was 15.49% for the year ended December 31, 2019.

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 2019 plan year was 8.01%. Since the actual return for the year was greater than the assumed return, the Plan experienced an actuarial gain during the year ended December 31, 2019 with regard to its investments.

Investment Experience

		Year Ended December 31, 2019	
		Market Value	**Actuarial Value**
1	Net investment income	$52,933,716	$28,659,312
2	Average value of assets	341,792,958	357,941,759
3	Rate of return: **1 ÷ 2**	15.49%	8.01%
4	Assumed rate of return	7.25%	7.25%
5	Expected investment income: **2 x 4**	24,779,989	25,950,778
6	Actuarial gain/(loss): **1 - 5**	$28,153,727	$2,708,534

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 nine years, including averages over select time periods.

Based upon this experience and future expectations, we have maintained the assumed rate of return of 7.25%.

Investment Return – Actuarial Value vs. Market Value: 2011 - 2019

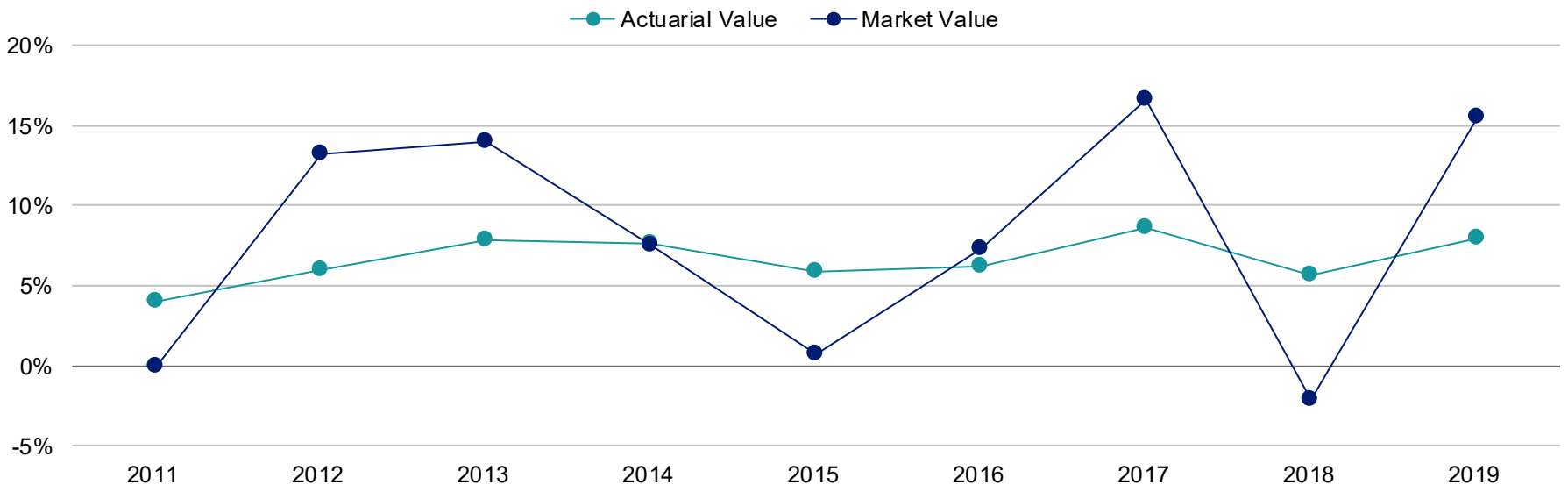
	Actuarial Value Investment Return		Market Value Investment Return	
Year Ended December 31	Amount	Percent	Amount	Percent
2011	N/A	4.00%	N/A	0.01%
2012	N/A	5.95%	N/A	13.20%
2013	$20,598,786	7.81%	$34,996,825	14.01%
2014	21,161,289	7.66%	20,748,803	7.50%
2015	17,239,997	5.93%	2,146,925	0.74%
2016	18,841,702	6.23%	20,972,368	7.30%
2017	27,163,945	8.59%	50,390,108	16.61%
2018	19,251,677	5.67%	-7,241,294	-2.07%
2019	28,659,312	8.01%	52,933,716	15.49%
Most recent five-year average return		6.92%		7.58%
Most recent seven-year average return		7.12%		8.33%

Note: Each year's yield is weighted by the average asset value in that year.

Section 2: Actuarial Valuation Results

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 - 2019



Non-investment experience

Administrative expenses

Administrative expenses plus net (3)(8)(c) payments for the year ended December 31, 2019 totaled $694,107, as compared to the assumption of $615,000. With this valuation, we have increased the administrative expense assumption from $365,000 for calendar year 2019 to $415,000 for calendar year 2020 and decreased the allowance for net (3)(8)(c) payments from $250,000 to $200,000. The combined administrative expenses plus net (3)(8)(c) allowance is unchanged at $615,000.

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 2 years was 43.0 per year compared to 37.4 projected deaths per year. The average number of deaths for disabled pensioners over the past 2 years was 7.0 per year compared to 4.3 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, 2019 amounted to $1,730,068.

Liability Changes Due to Demographic Experience for Year Ended December 31, 2019

Loss due to mortality experience	-$3,106,077
Gain due to salaries and service increasing less than expected for continuing actives	31,783
Gain due to disability and retirement experience	1,309,184
Miscellaneous experience loss, including pre-retirement mortality experience, special legislation awards, retirement experience, transfers, and new hires	35,042
Total	**-$1,730,068**

Actuarial assumptions

With this valuation, we have increased the administrative expense assumption from $365,000 for calendar year 2019 to $415,000 for calendar year 2020 and decreased the allowance for net (3)(8)(c) payments from $250,000 to $200,000. The combined administrative expenses plus net (3)(8)(c) allowance is unchanged at $615,000.

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, 2019

1	Unfunded actuarial accrued liability at beginning of year		$322,106,001
2	Normal cost at beginning of year		15,279,125
3	Total contributions		-42,465,125
4	Interest		
	• For whole year on **1 + 2**	$24,460,422	
	• For half year on **3**	-1,487,675	
	Total interest		22,972,747
5	Expected unfunded actuarial accrued liability		$317,892,747
6	Changes due to:		
	• Net gain from investments	-$2,708,534	
	• Net loss from other experience	1,814,910	
	Total changes		-893,624
7	Unfunded actuarial accrued liability at end of year		$316,999,123

Actuarially determined contribution

The actuarially determined contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. The fiscal 2021 appropriation has been lowered from the budgeted amount of $34,004,897 to $32,515,631, as approved by the Board.

The funding schedule included in this report and the prior valuation report each fully fund the System by June 30, 2030 if all assumptions are met. The fiscal 2021 appropriation is $37,269,367. The appropriation increases 9.60% per year thereafter.

Actuarially Determined Contribution for Year Beginning January 1

		2020		2019	
		Amount	% of Projected Payroll	Amount	% of Projected Payroll
1	Total normal cost	$14,921,201	13.91%	$14,664,125	13.99%
2	Administrative expenses and allowance for net (3)(8)(c) payments	615,000	0.57%	615,000	0.59%
3	Expected employee contributions	-10,591,974	-9.88%	-10,290,889	-9.82%
4	Employer normal cost: **(1) + (2) + (3)**	$4,944,227	4.61%	$4,988,236	4.76%
5	Actuarial accrued liability	$703,550,056		$680,097,898	
6	Actuarial value of assets	386,550,933		357,991,897	
7	Unfunded actuarial accrued liability: **(5) - (6)**	$316,999,123		$322,106,001	
8	Employer normal cost projected to July 1, 2020 and 2019, adjusted for timing	5,041,066	4.64%	5,085,937	4.79%
9	Projected unfunded actuarial accrued liability	328,289,288		332,811,090	
10	Payment on projected unfunded actuarial accrued liability, adjusted for timing	27,474,565	25.27%	25,940,428	24.42%
11	Actuarially Determined Contribution: **(8) + (10)**	$32,515,631	29.91%	$31,026,365	29.21%
12	Projected payroll as of July 1	$108,709,195		$106,235,106	

Notes:
Actuarially Determined Contributions are assumed to be paid on August 1.
Actuarially Determined Contribution for fiscal 2020 set equal to the budgeted amounts determined with the prior valuation.
Actuarially Determined Contribution for fiscal 2021 set equal to $32,515,261, as approved by the Retirement Board.
July 1, 2019 unfunded actuarial accrued liability reflects an additional contribution of $766,961 for fiscal 2019.

Funding schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Unfunded Actuarial Accrued Liability	(4) Actuarially Determined Contribution (ADC): (2) +(3)	(5) Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(6) Percent Increase in ADC Over Prior Year
2021	$5,041,066	$27,474,565	$32,515,631	$328,289,288	4.80%
2022	5,203,144	32,066,223	37,269,367	322,795,159	14.62%
2023	5,370,358	35,476,868	40,847,226	312,006,793	9.60%
2024	5,542,873	39,225,686	44,768,559	296,799,627	9.60%
2025	5,720,852	43,345,489	49,066,341	276,492,716	9.60%
2026	5,904,469	47,872,241	53,776,710	250,320,763	9.60%
2027	6,093,897	52,845,377	58,939,274	217,424,636	9.60%
2028	6,289,322	58,308,123	64,597,444	176,840,871	9.60%
2029	6,490,929	64,307,870	70,798,799	127,490,061	9.60%
2030	6,698,911	68,562,753	75,261,664	68,164,011	6.30%
2031	6,913,470	0	6,913,470	0	-90.81%

Notes:
Actuarially determined contributions are assumed to be paid on August 1.
Item (2) reflects 2.75% growth in payroll, plus an additional 0.15% adjustment to total normal cost to reflect the effects of mortality improvement due to generational mortality assumption.
Projected normal cost does not reflect the impact of pension reform for future hires.
Projected unfunded actuarial accrued liability does not reflect the recognition of deferred investment gains.

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. We recommend a more detailed assessment to provide the 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 9 years has ranged from a low of -2.07% to a high of 16.61%.

  As an illustration of the sensitivity of future employer contributions to investment volatility, we have estimated the impact of a 0% return in 2020 on the funding schedule that would be developed with the next valuation. Because the actuarial value of assets is used in the valuation, only 25% of the 2020 investment loss will be recognized with the next valuation. If all assumptions other than the investment return assumption are met, we estimate that the funding schedule included in next year's valuation report will reflect appropriations that increase 10.05% per year if the current full funding date of 2030 is maintained. Please note that this estimate assumes that any deferred investment losses as of January 1, 2021 are not recognized in the projection of the unfunded actuarial accrued liability in the funding schedule.

- Longevity Risk (the risk that mortality experience will be different than expected)

  The actuarial valuation includes an expectation of future improvement in life expectancy. Emerging plan experience that does not match these expectations will result in either an increase or decrease in the actuarially determined contribution.

- Contribution Risk (the risk that actual contributions will be different from actuarially determined contribution)

  Massachusetts General Law Chapter 32 requires payment of the actuarially determined contribution. If future experience matches current assumptions, we project the unfunded actuarial accrued liability will be paid off in 10 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 retirement experience different than assumed.

- Salary increases greater or less than projected.

- Actual Experience Over the Last Seven years and Implications for the Future

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

  The investment gain(loss) on a market value basis for a year has ranged from a loss of $32.6 million to a gain of $28.1 million.

  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% in 2014 to a high of 54.9% in 2020.

- 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.

  For the prior year benefit payments plus expenses were $100,276 more than contributions received. In future years, more cash may be needed from the investment portfolio to meet benefit payments.

Section 3: Supplemental Information

Exhibit A: Table of Plan Coverage

Category	Year Ended December 31 2019	2018	Change From Prior Year
Active participants in valuation:			
• Number	1,611	1,605	0.4%
• Average age	46.0	46.1	-0.1
• Average years of service	11.8	11.8	0.0
• Total payroll	$102,912,637	$100,614,192	2.3%
• Average payroll	$63,881	$62,688	1.9%
• Total account balances	$95,415,345	$92,804,794	2.8%
Inactive participants in valuation:			
Inactive participants due a refund of employee contributions	514	531	-3.2%
Inactive participants with a vested right to a deferred or immediate benefit	34	34	0.0%
Retired participants:			
• Number in pay status	971	967	0.4%
• Average age	74.3	74.3	0.0
• Average monthly benefit	$2,617	$2,511	4.2%
Disabled participants:			
• Number in pay status	129	132	-2.3%
• Average age	69.1	69.3	-0.2
• Average monthly benefit	$3,376	$3,206	5.3%
Beneficiaries:			
• Number in pay status	239	233	2.6%
• Average age	78.5	79.0	-0.5
• Average monthly benefit	$1,703	$1,615	5.4%

Notes:
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.
Calendar year 2018 payroll figures were increased by 19.0% for superior officers and by 1.5% for patrolmen to reflect unsettled bargaining contracts, and were decreased by 0.7% for school custodians to reflect retroactive contract settlements.

Exhibit B: Participants in Active Service as of December 31, 2019 by Age, Years of Service, and Average Payroll

		Years of Service								
Age	**Total**	**0-4**	**5-9**	**10-14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**35 - 39**	**40 & over**
Under 25	30	30	- -	- -	- -	- -	- -	- -	- -	- -
	$42,406	$42,406	- -	- -	- -	- -	- -	- -	- -	- -
25 - 29	183	160	23	- -	- -	- -	- -	- -	- -	- -
	$43,805	$42,203	$54,953	- -	- -	- -	- -	- -	- -	- -
30 - 34	222	105	104	13	- -	- -	- -	- -	- -	- -
	$59,023	$51,234	$63,963	$82,407	- -	- -	- -	- -	- -	- -
35 - 39	198	64	58	61	15	- -	- -	- -	- -	- -
	$67,409	$55,473	$70,273	$72,125	$88,085	- -	- -	- -	- -	- -
40 - 44	164	41	29	37	50	7	- -	- -	- -	- -
	$68,094	$46,613	$51,438	$70,247	$90,524	$91,315	- -	- -	- -	- -
45 - 49	143	35	22	15	38	31	2	- -	- -	- -
	$71,824	$50,378	$59,495	$54,448	$81,218	$99,957	$98,533	- -	- -	- -
50 - 54	171	22	30	23	35	34	16	10	1	- -
	$69,183	$50,259	$55,042	$56,694	$77,200	$83,097	$85,637	$80,651	$65,398	- -
55 - 59	209	39	30	30	30	22	13	36	9	- -
	$69,184	$46,792	$55,594	$65,946	$64,631	$76,855	$104,424	$85,683	$101,836	- -
60 - 64	174	19	22	26	33	17	14	24	15	4
	$71,047	$48,466	$62,352	$61,810	$61,280	$71,755	$82,026	$85,203	$108,278	$100,758
65 - 69	82	9	7	15	18	14	3	10	2	4
	$61,986	$41,562	$72,656	$59,158	$59,522	$71,882	$74,250	$62,216	$56,506	$69,289
70 & over	35	4	- -	2	4	6	7	2	2	8
	$57,174	$43,472	- -	$49,807	$63,931	$54,907	$54,801	$31,480	$46,559	$75,342
Total	1,611	528	325	222	223	131	55	82	29	16
	$63,881	$47,402	$61,514	$66,500	$75,893	$82,516	$85,082	$80,745	$96,973	$80,183

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net assets at market value at the beginning of the year	$341,843,096	$351,179,411
Contribution income:		
• Employer contributions	$31,303,599	$27,849,416
• Employer contributions	10,671,799	10,065,686
• Federal Grant Reimbursement and other contributions	489,727	459,311
• Less administrative expenses	-399,934	-325,392
Net contribution income	$42,065,191	$38,049,021
Investment income	52,933,716	-6,915,902
Total income available for benefits	$94,998,907	$31,133,119
Less benefit payments:		
• Pensions	-$41,871,294	-$39,918,779
• Net 3(8)(c) reimbursements	-294,173	-550,655
Net benefit payments	-$42,165,467	-$40,469,434
Change in reserve for future benefits	**$52,833,440**	**-$9,336,315**
Net assets at market value at the end of the year	**$394,676,536**	**$341,843,096**

Exhibit D: Department Breakouts

Department Code	Category	Active Participants in Valuation	Projected Payroll for Calendar 2020	Fiscal year ending 2022		
				Employer Normal Cost	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
001	Information Technology	12	$1,100,026	$25,614	$189,352	$214,966
002	Human Resources	7	550,957	13,942	197,865	211,807
003	Senior Services	4	310,438	552	84,415	84,967
004	Financial Information Systems	3	270,535	11,924	90,655	102,579
005	Jackson Homestead	3	191,188	13,891	32,559	46,450
006	Executive	8	774,817	39,567	251,358	290,925
007	Comptroller's	6	528,053	5,850	243,176	249,026
008	Retirement	3	316,556	-3,327	82,454	79,127
009	Assessing	13	1,046,928	25,243	390,808	416,051
010	Purchasing	5	382,551	22,481	132,892	155,373
011	Treasury	10	594,605	21,287	133,891	155,178
012	Law	14	1,354,127	36,244	374,099	410,343
013	City Clerk	11	710,611	19,112	112,780	131,892
014	Clerk of the Board	3	205,583	3,076	81,488	84,564
015	City Council	14	142,651	14,683	65,829	80,512
016	Building	34	2,456,696	130,808	666,086	796,894
017	Elections	1	48,618	5,461	102,846	108,307
018	Planning	19	1,418,486	51,226	211,620	262,846
018F	Planning - Federally Funded	6	400,979	6,424	192,916	199,340
018P	Community Preservation (Planning)	1	105,701	10,303	14,755	25,058
019	Fire (Group 2 & 4)	191	18,643,847	1,735,739	7,319,696	9,055,435

Section 3: Supplemental Information

Department Code	Category	Active Participants in Valuation	Projected Payroll for Calendar 2020	Fiscal year ending 2022		
				Employer Normal Cost	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
019A	Fire (Civilian Personnel)	0	0	0	0	0
019S	Fire (Retired under “Starck” Bill)	0	0	0	0	0
020	Police (Group 2 & 4)	105	9,668,740	874,787	4,697,006	5,571,793
020A	Police (Civilian Personnel)	35	2,366,965	28,312	483,162	511,474
020S	Police Superior Officers (Group 4)	38	5,284,727	445,875	1,493,593	1,939,468
021	Police School Traffic Supervisors	9	446,223	36,254	232,877	269,131
022	Sealer/Weights & Measures	1	86,230	5,431	17,867	23,298
023	Inspectional Services	16	1,212,691	68,393	303,579	371,972
025	Health & Human Services	45	3,090,880	120,973	683,232	804,205
026	Veterans	1	78,647	1,860	66,326	68,186
027	Library	55	3,260,715	97,504	1,148,714	1,246,218
028	School Custodian	91	5,169,266	165,299	1,617,466	1,782,765
029	School Cafeteria	0	0	2,138	196,157	198,295
030	School Teacher Aides	473	19,689,281	505,519	2,414,653	2,920,172
031	School Clerical	111	8,123,027	238,166	2,362,094	2,600,260
031A	School Committee	0	0	38	3,383	3,421
031B	School Use of Building (revolving)	3	177,420	8,903	42,928	51,831
031C	School Community Ed. / Summer School (revolving)	12	605,335	32,989	101,050	134,039
031E	School Ed Ctr Preschool (revolving)	11	317,932	12,859	25,103	37,962
031N	School NSHS Preschool (revolving)	2	42,374	855	95	950
031T	School Out-of-District Tuition	0	0	0	304	304
032	Recreation	41	3,063,019	56,716	1,098,549	1,155,265

Section 3: Supplemental Information

Department Code	Category	Active Participants in Valuation	Projected Payroll for Calendar 2020	Fiscal year ending 2022		
				Employer Normal Cost	Amortization of Unfunded Actuarial Accrued Liability	Total Appropriation
032A	Recreation - Arts in the Parks	0	0	0	0	0
033	Engineering	14	1,198,468	41,262	404,623	445,885
034	DPW	98	6,248,649	194,239	2,223,726	2,417,965
034A	DPW-Storm Water Management	10	664,475	16,257	104,686	120,943
034B	DPW 6 Man Highway Crew	5	250,271	2,339	2,941	5,280
035	Water/Sewer (General Personnel)	12	885,808	13,011	211,053	224,064
035S	Sewer Personnel	12	738,614	8,863	297,820	306,683
035W	Water Personnel	21	1,305,850	17,733	468,524	486,257
036	Newton Housing Authority	22	1,715,023	16,469	393,172	409,641
	TOTAL	**1,611**	**$107,244,583**	**$5,203,144**	**$32,066,223**	**$37,269,367**

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
2020	$394,676,536	$415,000	$200,000	$47,262,010	$10,591,974	$32,515,631	$28,418,864	$418,325,995	$23,649,459
2021	418,325,995	426,413	205,500	49,239,901	10,883,253	37,269,367	30,243,407	446,850,209	28,524,213
2022	446,850,209	438,139	211,151	51,187,044	11,182,543	40,847,226	32,380,115	479,423,758	32,573,550
2023	479,423,758	450,188	216,958	52,854,108	11,490,063	44,768,559	34,833,268	516,994,395	37,570,637
2024	516,994,395	462,568	222,924	54,379,324	11,806,039	49,066,341	37,667,769	560,469,728	43,475,333
2025	560,469,728	475,288	229,055	55,778,181	12,130,705	53,776,710	40,950,175	610,844,795	50,375,066
2026	610,844,795	488,359	235,354	57,072,725	12,464,300	58,939,274	44,753,272	669,205,203	58,360,408
2027	669,205,203	501,789	241,826	58,289,219	12,807,068	64,597,444	49,156,395	736,733,276	67,528,073
2028	736,733,276	515,588	248,476	59,395,117	13,159,263	70,798,799	54,248,175	814,780,331	78,047,055
2029	814,780,331	529,767	255,309	60,378,785	13,521,142	75,261,664	60,044,302	902,443,578	87,663,247
2030	902,443,578	544,335	262,330	61,340,037	13,892,974	6,913,470	63,899,333	925,002,652	22,559,074
2031	925,002,652	559,304	269,544	62,104,467	14,275,030	7,134,810	65,527,421	949,006,597	24,003,945
2032	949,006,597	574,685	276,957	62,817,672	14,667,594	7,363,144	67,262,708	974,630,728	25,624,131
2033	974,630,728	590,489	284,573	63,435,906	15,070,953	7,598,690	69,119,509	1,002,108,911	27,478,183
2034	1,002,108,911	606,728	292,399	63,937,206	15,485,404	7,841,672	71,115,592	1,031,715,247	29,606,336
2035	1,031,715,247	623,413	300,440	64,393,337	15,911,252	8,092,326	73,268,247	1,063,669,883	31,954,636
2036	1,063,669,883	640,556	308,702	64,894,086	16,348,812	8,350,889	75,590,199	1,098,116,438	34,446,555
2037	1,098,116,438	658,172	317,191	65,274,223	16,798,404	8,617,608	78,097,868	1,135,380,733	37,264,294
2038	1,135,380,733	676,271	325,914	65,597,975	17,260,360	8,892,740	80,812,568	1,175,746,240	40,365,507
2039	1,175,746,240	694,869	334,877	65,957,891	17,735,020	9,176,545	83,751,517	1,219,421,685	43,675,445
2040	1,219,421,685	713,978	344,086	66,310,089	18,222,733	9,469,294	86,931,458	1,266,677,018	47,255,333
2041	1,266,677,018	733,612	353,548	66,710,776	18,723,858	9,771,268	90,369,947	1,317,744,155	51,067,138
2042	1,317,744,155	753,787	363,271	67,118,493	19,238,764	10,082,753	94,085,324	1,372,915,447	55,171,291
2043	1,372,915,447	774,516	373,261	67,498,809	19,767,831	10,404,045	98,100,055	1,432,540,792	59,625,345
2044	1,432,540,792	795,815	383,525	67,727,570	20,311,446	10,735,452	102,444,031	1,497,124,811	64,584,019
2045	1,497,124,811	817,700	394,072	67,956,103	20,870,011	11,077,288	107,148,376	1,567,052,611	69,927,800
2046	1,567,052,611	840,186	404,909	68,149,690	21,443,936	11,429,878	112,242,294	1,642,773,934	75,721,323
2047	1,642,773,934	863,292	416,044	68,328,928	22,033,644	11,793,558	117,757,671	1,724,750,542	81,976,609
2048	1,724,750,542	887,032	427,485	68,379,426	22,639,569	12,168,671	123,732,156	1,813,596,995	88,846,453
2049	1,813,596,995	911,426	439,241	68,426,860	23,262,158	12,555,575	130,205,778	1,909,842,979	96,245,984

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 24.

Exhibit F: Definition of Pension Terms

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

Actuarial Accrued Liability for Actives:	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial Accrued Liability for Pensioners and Beneficiaries:	The single-sum value of lifetime benefits to existing pensioners and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial Cost Method:	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.
Actuarial Gain or Loss:	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. 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 in actuarial liabilities that are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.
Actuarially Equivalent:	Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.
Actuarial Present Value (APV):	The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is: Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.) Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, and Discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Section 3: Supplemental Information

Actuarial Present Value of Future Plan Benefits:	The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
Actuarial Valuation:	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB, such as the Actuarially Determined Contribution (ADC) and the Net Pension Liability (NPL).
Actuarial Value of Assets (AVA):	The value of the Fund'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 ADC.
Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.
Actuarially Determined Contribution (ADC):	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.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. 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 UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ADC, that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Section 3: Supplemental Information

Assumptions or Actuarial Assumptions:	The estimates upon which the cost of the Fund is calculated, including: Investment return - the rate of investment yield that the Fund will earn over the long-term future; Mortality rates - the death rates of employees and pensioners; life expectancy is based on these rates; Retirement rates - the rate or probability of retirement at a given age or service; Disability rates – the probability of disability retirement at a given age; Withdrawal rates - the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement; Salary increase rates - the rates of salary increase due to inflation and productivity growth.
Closed Amortization Period:	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Open Amortization Period.
Decrements:	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or withdrawal.
Defined Benefit Plan:	A retirement plan in which benefits are defined by a formula applied to the member's compensation and/or years of service.
Defined Contribution Plan:	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Experience Study:	A periodic review and analysis of the actual experience of the Fund 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 as deemed appropriate by the Actuary.
Funded Ratio:	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.

Section 3: Supplemental Information

GASB 67 and GASB 68:	Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.
Investment Return:	The rate of earnings of the Fund from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.
Net Pension Liability (NPL):	The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.
Normal Cost:	That portion of the Actuarial Present Value of pension plan benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.
Open Amortization Period:	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period with level percentage of payroll is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never decrease, but will become smaller each year, in relation to covered payroll, if the actuarial assumptions are realized.
Plan Fiduciary Net Position:	Market value of assets.
Total Pension Liability (TPL):	The actuarial accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.
Unfunded Actuarial Accrued Liability:	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative, in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.
Valuation Date or Actuarial Valuation Date:	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan 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 and Actuarial Cost Method

Net Investment Return:

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 Plan's target asset allocation.

Salary Increases:

Years of Service	Groups 1 and 2	Group 4
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.

Interest on Employee Contributions:

3.5%

Administrative Expenses:

$415,000 for calendar 2020, increasing 2.75% per year (previously, $365,000 for calendar 2019, increasing 2.75% per year).

Section 4: Actuarial Valuation Basis

	The administrative expense assumption is based on information on expected expenses provided by the Retirement System.
Allowance for Net 3(8)(c) Payments:	$200,000 for calendar year 2020, increasing 2.75% per year (previously, $250,000 for calendar year 2019, increasing 2.75% per year).
Mortality Rates:	*Pre-Retirement:* RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017 *Healthy Retiree:* RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017 *Disabled Retiree:* RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017 The mortality tables 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.
Termination Rates before Retirement:	

	Groups 1 and 2 - Rate (%)		
	Mortality		
Age	**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

	Group 4 - Rate (%)		
	Mortality		
Age	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:

Rate per year (%)			
Years of Service	**Groups 1 and 2**	**Years of Service**	**Group 4**
0	15.0	0 – 10	1.5
1	12.0	11+	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:

	Rate per year (%)		
	Groups 1 and 2		
Age	Male	Female	Group 4
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	15.0
56 – 57	2.5	6.5	10.0
58	5.0	6.5	10.0
59	6.5	6.5	15.0
60	12.0	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	- -

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.

Section 4: Actuarial Valuation Basis

Retirement Rates for Inactive Vested Participants:	55 for participants hired prior to April 2, 2012. For participants hired April 2, 2012 or later, 60 for Group 1, 55 for Group 2, and 50 for Group 4. The retirement age for inactive vested participants was based on historical and current demographic data, adjusted to reflect economic conditions of the area and estimated future experience and professional judgment.
Unknown Data for Participants:	Same as those exhibited by participants with similar known characteristics.
Family Composition:	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.
Benefit Election:	All participants are assumed to elect Option A. The benefit election reflects the fact that all benefit options are actuarially equivalent.
Total Service:	Total creditable service reported in the data
2019 Salaries:	2019 salaries are equal to salaries provided in the data, annualized for new hires. 2019 salaries 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.
Actuarial Value of Assets:	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.
Actuarial Cost Method:	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.
Justification for Change in Actuarial Assumptions:	Based on past experience and future expectations, the following actuarial assumption was changed as of January 1, 2020: With this valuation, we have increased the administrative expense assumption from $365,000 for calendar year 2019 to $415,000 for calendar year 2020 and decreased the allowance for net (3)(8)(c) payments from $250,000 to $200,000. The combined administrative expenses plus net (3)(8)(c) allowance is unchanged at $615,000.

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.

Plan Year:	January 1 through December 31
Plan Status:	Ongoing
Retirement Benefits:	Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.) For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the following table based on the age of the member at retirement:

Age Last Birthday at Date of Retirement

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

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

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

For members with less than 30 years of creditable service:
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

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

Section 4: Actuarial Valuation Basis

Post-Retirement Benefits:	The Board has adopted the provisions of Section 51 of Chapter 127 of the Acts of 1999, which provide that the Retirement Board may approve an annual COLA in excess of the Consumer Price Index but not to exceed a 3% COLA on the first $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.
Changes in Plan Provisions:	There have been no changes in plan provisions since the last valuation.