

Middlesex County Retirement System

Chief Executive Officers Meeting

October 6, 2011

7504431

Annual Appropriation

- The annual appropriation to the Middlesex County Retirement System is based on an actuarial valuation performed biennially.
- The most recent actuarial valuation was as of January 1, 2010 and is posted on middlesexretirement.org.
- The results of the 2010 actuarial valuation are used to determine the appropriation for fiscal 2012 and fiscal 2013.
- The next actuarial valuation will be as of January 1, 2012.

The Actuarial Valuation

- An actuarial valuation measures a Plan's liabilities and assets and determines the amounts needed to fund the Plan in an orderly manner.
- Active and retired member data and financial information is needed.
- Actuarial assumptions are used to project the benefits expected to be paid to current and future retirees and the present value of those benefits.
- A funding policy is established to determine employer contributions.

Participant Data

Category	Year Ended December 31	
	2009	2007
Active participants in valuation:		
Number	9,093	9,285
Average age	47.9	47.0
Average service	10.6	9.9
Total payroll	\$367,420,429	\$346,804,796
Average payroll	40,407	37,351
Inactive participants with a vested right to a deferred or immediate benefit	283	190
Inactive participants entitled to a return of their employee contributions	3,147	3,077
Retired participants:		
Number in pay status	3,730	3,666
Average age	73.6	73.4
Average monthly benefit	\$1,623	\$1,499
Disabled participants:		
Number in pay status	452	451
Average age	65.4	64.9
Average monthly benefit	\$2,341	\$2,128
Beneficiaries in pay status	651	647

Financial Information

- As of December 31, 2009, the market value of assets as reported in the System's Annual Statement was \$689 million.
- The Annual Statement is posted on middlesexretirement.org.
- Employer and employee contributions were \$78 million and \$34 million, respectively.
- Benefit payments and administrative expenses were \$96 million and \$2.8 million, respectively.
- The investment return, net of investment expenses, on the market value of assets was 13.3%.

Financial Information *cont.*

- To smooth market volatility, an actuarial value of assets is calculated and used to determine the System's unfunded liability.
- The actuarial value of assets defers the recognition of gains and losses from the most recent five years over a five-year period.
- For example, the 2008 investment loss will be recognized over five years beginning in 2008 and ending in 2012.
- As of December 31, 2009, net unrecognized losses were \$131 million.
- The actuarial value of assets was \$820 million or 119% of the market value of \$689 million.

Actuarial Assumptions

➤ Economic Assumptions

- Investment return – 8.125%
- Salary increases – 4.75% for Group 1 and 5.25% for Group 4
- COLA – 3% on first \$12,000 of retirement income
- Administrative expenses - \$3,000,000

➤ Demographic Assumptions

- Mortality – pre- and post-retirement
- Turnover
- Disability
- Retirement

Valuation Results

Year Beginning January 1

	2010		2008	
	Amount	% of Payroll	Amount	% of Payroll
1 Total normal cost	\$49,309,566	12.82%	\$42,890,280	11.91%
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2 Administrative expenses	3,000,000	0.78%	3,000,000	0.83%
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3 Expected employee contributions	<u>-35,073,142</u>	<u>-9.12%</u>	<u>-32,250,907</u>	<u>-8.95%</u>
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4 Employer normal cost: (1) + (2) + (3)	\$17,236,424	4.48%	\$13,639,373	3.79%
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5 Actuarial accrued liability	1,743,581,707		1,529,806,307	
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6 Actuarial value of assets	<u>819,987,914</u>		<u>774,863,669</u>	
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7 Unfunded actuarial accrued liability: (5) - (6)	\$923,593,793		\$754,942,638	
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Funding Schedule

- Prior to 2009, M.G.L. Chapter 32 required that retirement systems be fully funded by June 30, 2028.
- Chapter 21 of the Acts of 2009 extended the funding period by two years to June 30, 2030.
- Chapter 188 of the Acts of 2010 allows Boards to extend the funding schedule to June 30, 2040
 - Amortization payments increase at 4.0% per year (maximum rate of increase).
 - The Board may adopt a funding schedule that caps the annual increase in the appropriation at 8%.
 - The appropriation in a fiscal year can not be less than the prior fiscal year's appropriation.
 - Actuarial valuations are required biennially.

Middlesex County Funding Schedule

- The Board has approved a funding schedule with the appropriation (excluding the ERI amortization) increasing 4.75% over the prior year.
- The schedule funds the Retirement System by June 30, 2035.
- The appropriations for fiscal 12 and fiscal 13 are \$79.6 million and \$83.3 million, respectively.

Unit Appropriations

- There are 75 individual units within the Middlesex Retirement System.
- Beginning in 2004, costs have been allocated to individual units on an actuarial basis.
- After the initial asset allocation, a unit is credited/debited with actual employer and employee contributions and benefit payments for its members and credited/debited with a portion of administrative expenses and investment income.
- Each unit's cost reflects its actual experience.