State Retirement System
Actuarial Valuation

January 1, 2021

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

PERAC ACTUARIAL VALUATION REPORT

State Retirement System

January 1, 2021

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1. INTRODUCTION & CERTIFICATION

This report presents the results of the actuarial valuation of the State Retirement System. The valuation was performed as of January 1, 2021, pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time. The actuarial assumptions used to calculate the accrued liability and the normal cost primarily reflect our most recent Experience Study Analysis report which we issued in 2014 and subsequent retiree mortality analysis in 2015 and 2017. The actuarial assumptions used in this valuation are the same as those used in the January 1, 2019 actuarial valuation, except the investment return assumption was decreased from 7.25% to 7.00% and the mortality assumption was modified to reflect a more current mortality improvement scale.

This valuation was based on member data as of December 31, 2020, which was supplied by the State Retirement Board. Asset information as of December 31, 2020 was provided by the Pension Reserves Investment Management Board. Both the membership data and financial information were reviewed for reasonableness but not audited by us.

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 natural operation of the methodology used for these measurements such as additional contribution requirements based on the plan's funded status; and changes in plan provisions or applicable law. As part of this valuation, we have not performed an analysis of the potential range of future measurements.

We, the undersigned actuaries, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In our opinion, the actuarial assumptions used in this report are reasonable, are related to plan experience and expectations, and represent our best estimate of anticipated experience. We believe this report represents an accurate appraisal of the actuarial status of the State Retirement System performed in accordance with generally accepted actuarial principles and practices relating to pension plans.

Respectfully submitted,

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2. EXECUTIVE SUMMARY

A | PRINCIPAL VALUATION RESULTS

The provisions of Chapter 32, Section 22C mandate the establishment of a funding schedule for the Commonwealth of Massachusetts' pension obligation. The State Retirement System (SRS) reflects one component of the Commonwealth schedule. The other components are the Massachusetts Teachers' Retirement System, liabilities for Boston teachers, and State reimbursements to local systems to reflect COLAs granted from 1982 through 1996 (determined on an actuarial basis). Beginning in FY18, Chapter 5 of the Acts of 2017 required that several additional items be included in the development of the Commonwealth funding schedule but shown separately. These items include the administrative expenses of the Public Employee Retirement Administration Commission (PERAC), the employer contribution to the Optional Retirement Plan (ORP) under Section 40 of Chapter 15A, and a modification to the COLA reimbursement to local systems described above to reflect actual reimbursements. The schedule, as mandated by law, calls for payment of the Normal Cost plus an amortization payment on the Unfunded Actuarial Liability (UAL).

The Commonwealth's current funding schedule was filed in January, 2020 and was based on the results of the January 1, 2019 Commonwealth Actuarial Valuation. The FY22 appropriation under the schedule is $3.415 billion. The total appropriation under the schedule increases 9.63% each year until FY35 with a final amortization payment in FY36. The amortization of the 2015 Early Retirement Incentive (ERI) will be completed in FY27. The next schedule will be adopted in early 2023 based on the results of the 2022 Commonwealth actuarial valuation.

The SRS's share of the FY22 Commonwealth appropriation is $1.309 billion. The 2015 ERI amortization payment is $28.4 million and is included in this figure.

The principal results of the January 1, 2021 actuarial valuation are as follows (in thousands):

Total Normal Cost	$1,002,551
Expected Employee Contributions	$603,008
Net Normal Cost	$399,543
Total Expenses and Transfers	$68,000
Net Normal Cost Plus Expenses and Transfers	$467,543

Total Actuarial Liability	$45,704,298
Assets	$30,370,096
Unfunded Actuarial Liability	$15,334,202
Funded Ratio	66.5%

2. EXECUTIVE SUMMARY *(continued)*

B | COMPARISON WITH PRIOR VALUATION AND EXPERIENCE ANALYSIS

A comparison of the current valuation and the January 1, 2019 valuation is shown below (in thousands). Normally, the actuarial valuations for the State Retirement System are performed annually. However, due to the COVID-19 pandemic, we did not complete a valuation as of January 1, 2020.

	1/1/21	1/1/19	Increase/ (Decrease)	Increase/ (Decrease)
Total Normal Cost	$1,002,551	$930,111	$72,440	7.8%
Expected Employee Contributions	603,008	578,733	24,275	4.2%
Net Normal Cost	$399,543	$351,378	$48,165	13.7%
Administrative Expenses	$35,400	$33,400	$2,000	6.0%
Optional Retirement Plan Payment	14,600	14,600	0	0.0%
3(8)(c) Amounts Transferred to Other Systems	18,000	15,000	3,000	20.0%
Total Expenses and Transfers	$68,000	$63,000	$5,000	7.9%
Net Normal Cost plus Expenses and Transfers	$467,543	$414,378	$53,165	12.8%
Actuarial Liability				
Actives	$18,980,150	$18,316,590	$663,560	3.6%
Retirees and Inactives	26,724,148	24,278,634	2,445,514	10.1%
Total	$45,704,298	$42,595,224	$3,109,074	7.3%
Assets (Actuarial Value)	$30,370,096	$27,136,639	$3,233,457	11.9%
Unfunded Actuarial Liability	$15,334,202	$15,458,585	($124,383)	(0.8%)
Funded Ratio	66.5%	63.7%	2.8%	

Total Expenses and Transfers
In our 2017 valuation, we began showing the expense and transfer items separately from the normal cost. Administrative expenses (including PERAC's administrative expenses) reflect the expenses from the most recent Annual Statement excluding investment related expenses and the Optional Retirement Plan (ORP) payment which is shown separately. The ORP payment is the amount transferred by statute from the Commonwealth (previously from SRS) to the ORP for higher education employees. By including this payment as part of the normal cost, we have treated it as a reimbursement to the pension trust fund. Finally, $18.0 million is included for amounts transferred to other systems under Section 3(8)(c) for members with State service who retired from another system. Section 3(8)(c) receipts from other systems are transferred to the State's general account. By including the Section 3(8)(c) disbursements in normal cost, the net Section 3(8)(c) cash flow is zero for funding purposes.

2. EXECUTIVE SUMMARY *(continued)*

B | COMPARISON WITH PRIOR VALUATION AND EXPERIENCE ANALYSIS *(continued)*

Actives	1/1/21	1/1/19	Increase/ (Decrease)
Number	87,136	87,969	(0.9%)
Total Payroll	$6,544,575,160	$6,354,473,093	3.0%
Average Salary	$75,108	$72,235	4.0%
Average Age	46.9	47.0	(0.2%)
Average Service	12.3	12.5	(1.6%)

There were 74,466 active members as of January 1, 2019 who remained in active status as of January 1, 2021. Pay for these members increased 7.0% over the two years.

Retirees and Survivors	1/1/21	1/1/19	Increase/ (Decrease)
Number	66,901	64,758	3.3%
Total Benefits	$2,570,301,580	$2,336,749,646	10.0%
Average Benefits	$38,419	$36,084	6.5%
Average Age	72.2	71.9	0.4%

Gain/Loss

The development of the actuarial gain/(loss) is shown on page 17. During 2019 and 2020, there was an overall actuarial gain of $1,846 million. There was a non-investment related gain (gain on actuarial accrued liability) of $737 million. This gain is quite small and reflects that the assumptions are reasonable. There was a gain of $1,109 million on the actuarial value of assets (AVA). The returns on assets for 2019 and 2020 were approximately 7.9% and 10.5% respectively on an AVA basis, compared to 16.8% and 12.7% respectively on a market value basis.

The pay for continuing active members (active members in both the 1/19 and 1/21 valuations) increased by an average of 3.4% per year which is less than assumed and generated a gain. Gains and losses from all other sources, including data corrections, also resulted in a net gain.

We value system assets using a smoothing technique which spreads gains and losses over short periods (5 years) and employs a "corridor" so that the actuarial value is within 10% of the market value of assets (MVA). The calculated AVA as of January 1, 2021 is 93.1% of the market value and is within the specified corridor.

The UAL decreased from $15.46 billion as of January 1, 2019 to $15.33 billion as of January 1, 2021. The UAL would have been $14.79 billion if there were no change in the actuarial assumptions (see next section).

2. EXECUTIVE SUMMARY *(continued)*

B | COMPARISON WITH PRIOR VALUATION AND EXPERIENCE ANALYSIS *(continued)*

Actuarial Assumptions

Investment Return

The January 1, 2021 valuation reflects a 7.0% investment return assumption (reduced from 7.25% as of January 1, 2019). The investment return assumption previously decreased seven times from 8.25% as of January 1, 2012 (see detail on page 9). Please note that PERAC had recommended, and the Commission had adopted, a reduction in the investment return assumption to 7.15% for the January 1, 2020 actuarial valuation. However, due to the COVID-19 pandemic, we ultimately did not complete the 2020 valuation. As part of this valuation, we considered whether to maintain the 7.15% assumption or reduce it further. Although a case could be made to maintain this assumption, we believe a stronger case can be made to slightly reduce it.

Early this year, NEPC, PRIT's investment consultant, provided figures for 30-year expected return projections using a building block approach and the target allocation and expected long term returns by asset class. The expected annual return is 6.8% (6.3% if we assume expenses of 50 basis points and the expected return reflects a gross return) in this study. This figure is 50 basis points lower than the figure from the 2020 study (which was 60 basis points lower than the 2019 study). Note that the 6.8% average expected return does not mean that the expected return each year will be 6.8%. In fact, over the shorter term (10 years) the average expected return is 5.8% (40 basis points lower than last year). Greater expected returns in later years determined NEPC's long-term projection. The NEPC projected returns are the first measure we review to determine the long-term investment return assumption.

A comparison of recent expected return projections as well as historical PRIT returns is shown below.

	Expected Annual Return (gross)						
	2015	2016	2017	2018	2019	2020	2021
10 year expected return*	6.8%	6.8%	6.8%	6.6%	6.8%	6.2%	5.8%
30 year expected return	7.9%	7.8%	7.8%	7.7%	7.9%	7.3%	6.8%

* In years prior to 2020, NEPC's short-term horizon was 5-7 years

Actual Returns as of December 31, 2020	
2020	12.5%
5 years (2016-2020)	10.4%
10 years (2011-2020)	9.0%
20 years (2001-2020)	7.3%
36 years (1985-2020)	9.6%

In addition to the NEPC analysis, we review other capital market studies for comparison. One report that we review is the Horizon Actuarial Services Survey of Capital Market Assumptions. This study compares the projections of 39 different investment consultants, including NEPC. The Horizon study used in our analysis was published in July 2020. Since it reflects 2020 capital market projections, there is a lag between the Horizon results and the NEPC 2021 study. However, the Horizon study continued to show the trend of decreasing expected investment returns. Other studies we reviewed showed results consistent with this trend.

2. EXECUTIVE SUMMARY *(continued)*

B | COMPARISON WITH PRIOR VALUATION AND EXPERIENCE ANALYSIS *(continued)*

In addition to the NEPC and other capital market analyses, NASRA periodically publishes a study of investment return assumptions used by over 100 large public plans. In its latest study as of February 2021, the average investment return assumption is 7.18% which is a slight decrease from the 7.22% figure published in February 2020. Although this study does not take in to account different asset allocations between the plans, it demonstrates the continuing reduction in this assumption.

Based on our analysis, we recommended reducing this assumption to 7.0% for this valuation. The change in the investment return assumption (from the 7.25% used in the January 1, 2019 actuarial valuation) increased the normal cost by $50 million and the actuarial liability by $1.168 billion.

Mortality

In our 2011 actuarial valuation, we began reflecting future mortality improvement (increasing life expectancy). Each year we modified this assumption as we moved closer to a fully generational mortality assumption (a two-dimensional table based on a member's age and calendar year that includes all expected future mortality improvements). Based on our analysis of State retiree mortality during 2012, 2013, and 2014, we adopted a fully generational assumption in the 2015 actuarial valuation. In early 2017, we analyzed retiree mortality experience during 2015 and 2016. We adopted a blue-collar version of the RP-2014 table for superannuation retirees as it best matched our experience. We maintained the base mortality table in this valuation. However, we updated the mortality improvement scale to the more current MP-2020.

For disabled retirees, in our 2019 valuation, we assumed the mortality would reflect the same assumption as for superannuation retirees, but with an age set forward of one year. We maintained that assumption this year.

The change in the mortality assumption decreased the normal cost by $7 million and the actuarial liability by $625 million.

Total Impact

The overall impact of these two assumption changes increased the plan's normal cost by approximately $43 million and the actuarial liability by approximately $543 million

2. EXECUTIVE SUMMARY *(continued)*

B | COMPARISON WITH PRIOR VALUATION AND EXPERIENCE ANALYSIS *(continued)*

Job Groups

We noted several issues relating to job group as part of the valuation data we received from SRS and made similar adjustments as we have in the past. As we have done in previous years, we changed the job group for several University of Massachusetts Police members from Group 1 to Group 2.

In the 2017 valuation, we analyzed costs for certain members of the Department of Mental Health (DMH) and Social Services who were coded as job Group 1. We determined plan liabilities for these members based on both Group 1 and Group 2 status. DMH members with certain titles and Social Services workers with 10 years of service in certain capacities are eligible to be in Group 2. Based on our discussions with SRS, most of these members will ultimately be eligible for Group 2 status. By assuming these members will ultimately be in Group 2, we are being somewhat conservative. We used the results of our 2017 work to estimate the increase in actuarial liability due to this adjustment to be approximately $150 million in this valuation.

Other Chapter 176 of 2011 Issues

There are several other changes under Chapter 176 that we have discussed in previous valuations that have the most impact on decreasing plan liabilities over the longer term. These include an increase in the normal retirement age by two years (for example, from age 65 to age 67 for Group 1 members), an increase in the age (early retirement) reduction factor for ages below the maximum age (from a 4.0% to a 6.0% annual reduction), and an increase in the period for determining a member's average annual compensation (from 3 years to 5 years). These changes are effective only for members hired after April 1, 2012.

As of January 1, 2021, there were approximately 41,100 members hired after April 1, 2012. The employer normal cost is approximately $52 million lower than it would have been if the prior provisions were in place for these members. The actuarial liability is approximately $377 million lower than it would have been if the prior provisions were in place.

2. EXECUTIVE SUMMARY *(continued)*

C | FUNDING PROGRESS

The UAL and funded ratio are measures of the plan's funded status. These measures reflect the plan's position as of January 1, 2021. We believe these measures alone are not appropriate for assessing the sufficiency of assets to cover the estimated cost of settling the State Retirement System's benefit obligations or assessing the need for or the amount of future contributions. However, we believe these measures, in conjunction with maintaining the appropriations required under the Commonwealth funding schedule, are appropriate for assessing the amount of future contributions.

The nature of actuarial funding is that assets gradually catch up to the actuarial liability. When pension funding was adopted in 1987, the initial amortization period was established as 40 years. Based on the amortization basis of the schedules adopted, the UAL was expected to increase for a period of time. However, due to actual investment returns significantly exceeding the expected return in the 1990s, the UAL actually decreased until January 1, 2000.

It is important to note that plan assets have grown faster than plan liabilities. As of January 1, 1990, the actuarial liability was $7.5 billion and assets were $3.7 billion. The difference of $3.8 billion was the UAL (see chart on page 10). As of January 1, 2021, the actuarial liability is $45.7 billion and the actuarial value of assets is $30.4 billion. The difference of $15.3 billion is the UAL. The actuarial liability has grown 6.1 times over this period ($45.7B / $7.5B). But assets have grown 8.2 times over this same period ($30.4B / $3.7B).

For this reason, we believe the funded ratio (see page 11) represents a better measure of the Commonwealth's funding progress. If you draw a straight line from the 1990 funded ratio of 49.5% to the January 1, 2021 amount of 66.5%, the line is moving upward to the right, despite a number of assumption and plan changes that decreased the funded ratio. This demonstrates the funding progress to date. Although the funded ratio reached 94.5% on January 1, 2000, this was the result of average annual returns from 1985-1999 that exceeded 12.5% and attaining such a high level of funding so quickly was not expected. Over the past 20 years (2001-2020), the average annual return on assets on a market value basis is approximately 7.3%. Over a 10-year and 5-year period, the returns have been 9.0% and 10.4% respectively. The 36-year return (since inception) is 9.6%.

We indicated previously that the actuarial liability as of January 1, 2021 increased $1.168 billion to reflect a decrease in the investment return assumption and decreased $625 million to reflect the change in the mortality assumption. There have been a number of other plan and assumption changes since 2009 that have increased the State's actuarial liability. These changes include five other reductions in the investment return assumption and adjustments to the mortality assumption prior to the change to a fully generational assumption as of January 1, 2015, with subsequent adjustments in 2017, 2018, and 2021. The other changes include the adoption of a $13,000 COLA base, the transfer of active members of sheriff departments in six counties to the SRS, the transfer of former members of the Massachusetts Turnpike Authority Retirement System to the SRS, the transfer of ORP members to the SRS, the 2015 Early Retirement Incentive (ERI), and the 2016 toll collector's ERI. Including the changes as of January 1, 2021, the unfunded actuarial liability is approximately $5.86 billion greater than it would have been using the 2009 valuation assumptions and plan provisions. Therefore, on a comparable basis with the 2009 assumptions and provisions, the UAL on January 1, 2021 would be $9.5 billion and the funded ratio would be 76.2%.

2. EXECUTIVE SUMMARY *(continued)*

C | FUNDING PROGRESS *(continued)*

The chart below provides further detail on these changes.

Change in Unfunded Actuarial Liability since 2009 Valuation (in millions)

	State
Assumption Changes	$4,719
Plan Amendments	1,139
Total	$5,858

Assumption changes (with valuation date reflected)	(in millions)
Reduction in investment return assumption from 8.25% to 8.0% (2013)	$703
Reduction in investment return assumption from 8.0% to 7.75% (2015)	804
Reduction in investment return assumption from 7.75% to 7.50% (2016)	933
Reduction in investment return assumption from 7.50% to 7.35% (2018)	613
Reduction in investment return assumption from 7.35% to 7.25% (2019)	434
Reduction in investment return assumption from 7.25% to 7.00% (2021)	1,168
Adoption of fully generational mortality assumption (2015)	593
Other mortality adjustments (2012, 2013, 2014)	324
Mortality adjustment (2017)	304
Mortality adjustment (2018)	9
Mortality adjustment (2021)	(625)
Other experience study changes (2013)	(541)
Total	4,719

Plan amendments (with valuation date reflected)	
Transfer of Massachusetts Turnpike Authority (2010)	136
Transfer of sheriff departments (2011)	225
$13,000 COLA base (2012)	138
Early Retirement Incentive (2016)	230
Transfer of ORP members (2016)	400
Early Retirement Incentive for toll collectors (2017)	10
Total	1,139

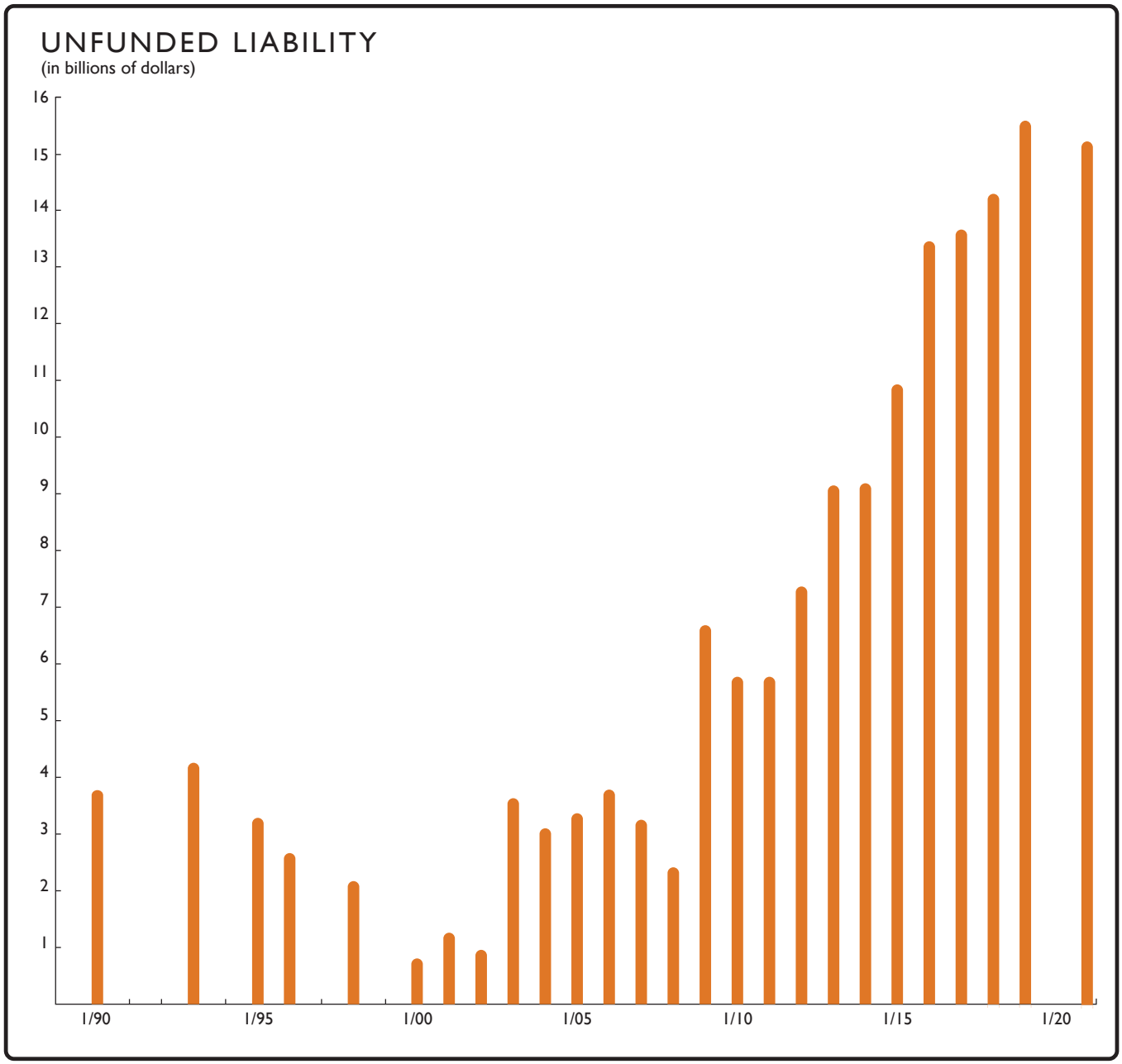
2. EXECUTIVE SUMMARY *(continued)*

C | FUNDING PROGRESS *(continued)*

The chart below compares the Unfunded Actuarial Accrued Liability (UAL) since 1990. The UAL represents the actuarial accrued liability less the actuarial value of plan assets. When there is no UAL, a system is said to be "fully funded". In this exhibit, estimates were developed for years prior to 2000 to reflect our implementation of updated actuarial software at that time.

The UAL is $15.3 billion. On a market value basis the UAL is $13.1 billion.

The UAL decreased $125 million since January 1, 2019. The revised assumptions increased the actuarial liability by $543 million. If the 2021 valuation reflected the 2019 valuation assumptions and plan provisions, the UAL would be $14.8 billion.



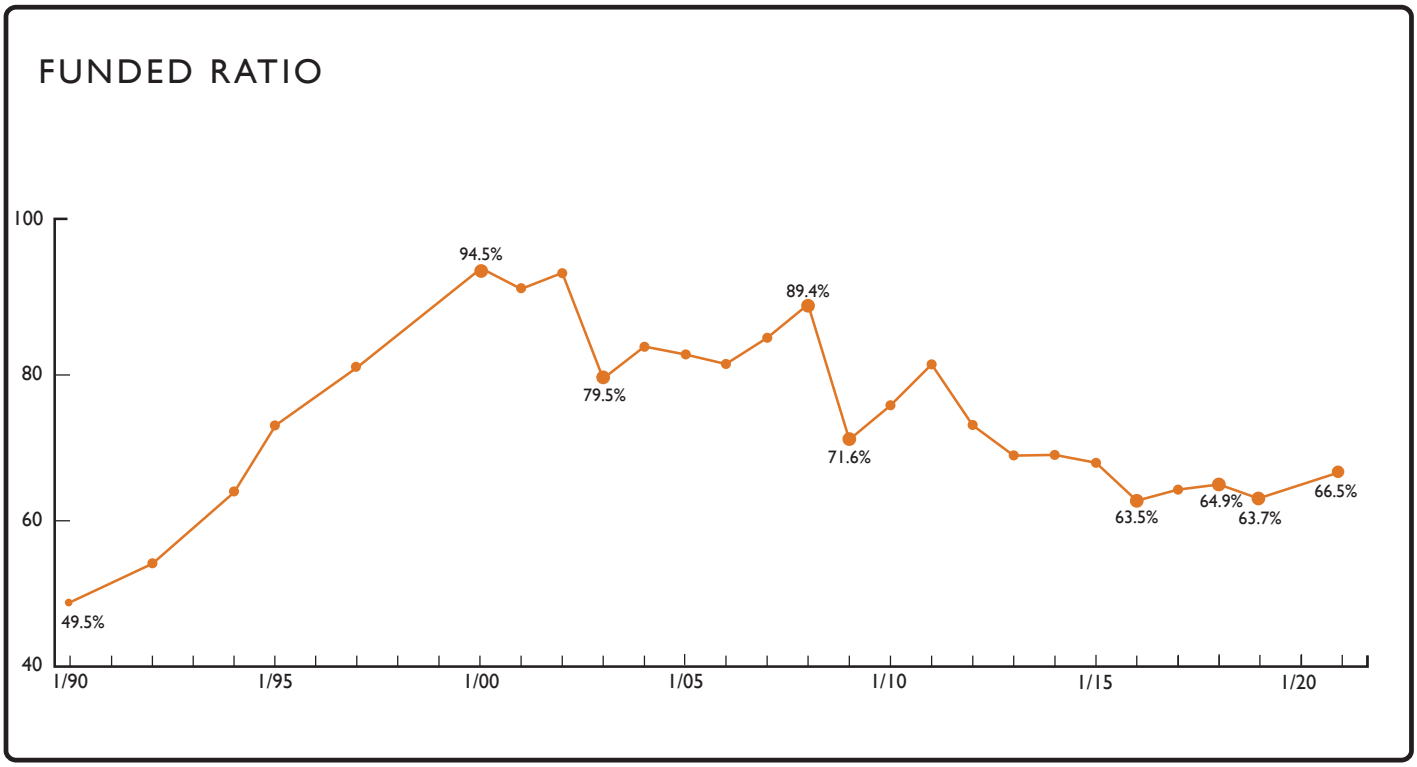
2. EXECUTIVE SUMMARY *(continued)*

C | FUNDING PROGRESS *(continued)*

The chart below shows the State's funded ratio progress since 1990. The funded ratio represents the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is said to be "fully funded". In this exhibit, estimates were developed for years prior to 2000 to reflect our implementation of updated actuarial software at that time.

The funded ratio is 66.5%. On a market value basis the funded ratio is 71.4%.

The funded ratio increased from 63.7% as of January 1, 2019 to 66.5% as of January 1, 2021. The revised assumptions decreased the funded ratio as of January 1, 2021. If the 2021 valuation reflected the 2019 valuation assumptions and plan provisions, the funded ratio would be 67.2%.



2. EXECUTIVE SUMMARY *(continued)*

D | RISK

Risk is defined as the potential for differences in future plan measurements resulting from actual future experience deviating from actuarial assumed experience. The plan is subject to a number of risks that could affect its future financial condition. Examples of risks include the following:

Investment risk- the potential that investment returns will be different than expected;

Asset/liability mismatch risk- the potential that changes in asset values are not matched by changes in the value of liabilities;

Interest rate risk- the potential that interest rates will be different than expected;

Longevity and demographic risk- the potential that mortality or other demographic experience will be different than expected;

Contribution risk- the potential that employer contributions to the plan will not be made, or will not be made at the assumed level.

In this section, we provide a brief analysis of several risk measures that we believe are most significant for the plan. A more detailed risk assessment that includes further scenario testing (assessing the impact of one or several events on the plan's financial condition, for example projecting plan investment returns), stress testing (assessing the impact of an adverse change in one or several factors), sensitivity testing (assessing the impact of a change in an actuarial assumption), or stochastic modeling (generating numerous possible outcomes by allowing for random variations in input items to assess the distribution of the outcomes) may provide a better understanding than the analysis in this section.

Unfunded Actuarial Liability and Funded Ratio

We previously discussed in detail the impact of assumption and plan provision changes on the Unfunded Actuarial Liability and the Funded Ratio (see pages 8-11).

Investment Return Assumption

The investment return assumption of 7.00% is consistent with our 2021 recommendation. Currently 31 systems use an assumption of 7.00% or lower. We expect this figure to increase as more of the 2021 actuarial valuations are completed.

2. EXECUTIVE SUMMARY *(continued)*

D | RISK *(continued)*

Funding Schedule and Amortization Basis

Amortization of UAL basis: 9.63% total appropriation increase to FY35 with a final amortization payment in FY36

It is important to note that our emphasis since 2013 has been for systems to establish funding schedules that complete the amortization of the UAL no later than FY35. This allows systems some flexibility in the event of another market downturn. In 2011, the Commonwealth adopted a schedule that extended the amortization of the UAL to FY40 due to the 2008 investment loss. In 2014, the schedule reduced the amortization period to FY36. The 2017 and 2020 schedules maintained the FY36 date by increasing the level of future appropriations.

A related priority to fully funding the System by FY35 is limiting the amount and period of "negative amortization". Negative amortization occurs while the UAL increases in the funding schedule. The reason it occurs is that the amortization payment for a given year is not large enough to pay the interest on the UAL. Negative amortization often occurs in amortization schedules with annual increasing payments. Negative amortization is acceptable as long as it is only for a limited period of time. We believe the goal for all systems should be to eliminate negative amortization by FY21. The negative amortization for the Commonwealth schedule extends to FY25.

A large number of Massachusetts systems have adopted schedules that increase the total appropriation by a set percentage for a period of time (or the entire length of the schedule). The Commonwealth schedule reflects this methodology. Since the level of annual increase exceeds 6.0%, there is some risk in whether such a level of annual increase is sustainable. However, the Commonwealth has consistently met (and increased as necessary) the higher level of appropriations since the 2011 schedule was adopted.

Maturity and Volatility Measures

There are a number of plan maturity and volatility ratios that can provide significant insight into the level of a plan's risk. To illustrate, we are providing two such measures. In both cases, we show the 10-year history of the ratio. In addition, we comment on how the results compare with local systems. We believe that these measures are more useful when compared to historical averages and the results of other plans. See our comments in PART C with respect to assumption changes and plan amendments over this period, which significantly affect these results.

2. EXECUTIVE SUMMARY *(continued)*

D | RISK *(continued)*

Retiree Actuarial Liability / Total Actuarial Liability

This ratio measures the percentage of actuarial liability due to the plan's retirees. Higher ratios and/or an increase in this ratio indicate a system that is more mature or becoming more mature. As this ratio increases, it generally indicates the retired population is increasing faster than the active member population and there is a greater likelihood of negative cash flow (benefit payments exceeding employer and employee contributions). Retirees in pay status are more expensive than younger members. As a plan matures, it becomes more sensitive to investment volatility and the plan will have more difficulty recovering from losses even with increases in employer contributions.

Retiree Actuarial Liability / Total Actuarial Liability

Valuation Date									
2011	2012	2013	2014	2015	2016	2017	2018	2019	2021
0.48	0.49	0.49	0.50	0.50	0.53	0.54	0.54	0.55	0.56

The ratios for this system show a steady increase indicating the plan has become more mature. Public sector plans often have aging populations generating an increase in this ratio. We have found this to be generally true for the systems for which PERAC is the actuary. In 2011, this ratio ranged from .33 to .67. In recent valuations this range has increased to .45 to .65. This plan has consistently been within these ranges. Most systems have seen an increase in this ratio over the past 10-15 years as the number of retirees, and specifically the retiree liability has increased as a percentage of the total. A number of systems have had fairly consistent ratios and a few have had decreasing ratios. Such systems have already reached and or maintained a more mature level.

Actuarial Liability / Pay

This measure reflects how a change in actuarial liability (and therefore UAL) may impact the adequacy of contributions. As this ratio increases, plan contributions (using a traditional amortization schedule) increase as a percentage of pay. Furthermore, like the Retiree Liability ratio noted above, higher ratios exacerbate the impact of investment losses on plan contributions.

Actuarial Liability / Pay

Valuation Date									
2011	2012	2013	2014	2015	2016	2017	2018	2019	2021
5.5	5.6	5.7	5.7	6.0	6.4	6.5	6.6	6.7	7.0

2. EXECUTIVE SUMMARY *(continued)*

D | RISK *(continued)*

The State Retirement System (SRS) shows gradually increasing rates. For comparison with other PERAC systems, in 2011, this ratio ranged from 4.3 to 7.3. For recent valuations, this range has increased. The ratios currently range from 5.3 to 8.9. Again, the SRS has been consistently within these ranges. These ratios indicate an increased level of risk for the plan.

Impact of Investment Returns on Unfunded Liability and Funded Ratio (Market Value Basis)

We have prepared a simple 5-year projection illustrating the potential impact of actual investment returns on funding levels. For this estimate, we used the market value of assets and did not attempt to develop an actuarial value of assets in future years. In projecting the actuarial liability, we assumed the January 1, 2021 actuarial assumptions are exactly realized over the next 5 years and that there are no changes in assumptions over this period.

We first projected the market value of assets assuming the actual return for each of the next 5 years is 7.0% (the assumption used in the valuation). For comparison, we have also shown the results if the return were 3.0% each year. The 3.0% assumption is not intended to be a worst-case basis, but only to reflect the impact of a lower short-term return than the current plan assumption. As discussed earlier in the Executive Summary, projected returns are lower over the next 10 years than over the next 30 years.

	Valuation Date					
	2021	2022	2023	2024	2025	2026
UAL (in billions)						
7.00%	$13.1	$13.2	$13.3	$13.2	$13.1	$12.7
3.00%	$13.1	$14.5	$16.0	$17.4	$18.8	$20.2
Funded Ratio						
7.00%	71.4%	72.0%	72.8%	73.8%	75.0%	76.4%
3.00%	71.4%	69.3%	67.4%	65.6%	64.0%	62.5%

For this comparison, we assumed that for the 3.0% projections, the appropriation for the next 5 years would remain as in the current funding schedule (and the same as that if the actual returns were 7.0% per year). If actual returns were in fact 3.0% per year, the funding schedule would almost certainly need to be increased before FY26.

This analysis shows that even if the fund exactly meets expectations for the next few years, the UAL will continue to increase until FY23. This demonstrates the concept of negative amortization discussed earlier in this section. Note that under the 7.0% analysis, the funded ratio gradually increases over the next few years. The funded ratio will begin to increase more rapidly over the last 10 years of the schedule, assuming that all assumptions are exactly realized.

2. EXECUTIVE SUMMARY *(continued)*

D | RISK *(continued)*

Cash Flow

Cash flow reflects receipts (primarily employee and employer contributions) less disbursements (primarily benefit payments and expenses). We use the information provided in the Annual Statement but subtract any investment income credit or excess investment income entries from the total receipts. Then we measure the ratio of receipts to disbursements. A ratio greater than 1.0 means receipts are greater than disbursements (positive cash flow). Likewise, a ratio less than 1.0 means receipts are less than disbursements (negative cash flow).

Most Massachusetts public systems have negative cash flow. This is not a significant issue for long-term funding, but presents potential issues for short-term funding. All else being equal, over the short term, a negative cash flow produces a yearly funded ratio lower than it would have been if there were positive cash flow. This is because a portion of the investment earnings are being used to pay the net benefits and expenses. Therefore, less of the investment earnings are included in the end of the year value of the plan assets resulting in a lower MVA and a lower funded ratio. This may dampen funded ratio expectations somewhat when reviewing 5-year projections. This plan has a ratio of .67 using the 2020 Annual Statement. Since the ratio is less than 1.0, there is not a modest impact on our 5-year funded ratio projections.

3. SUMMARY OF VALUATION RESULTS

(Dollars in thousands)

A. Number of Members	
Active	87,136
Vested Terminated	4,570
Non-Vested Terminated Members	23,357
Retirees and Survivors	66,901
Total	181,964
B. Total Payroll	$6,544,575
C. Normal Cost	
Total Normal Cost	1,002,551
Expected Employee Contributions	603,008
Net Employer Normal Cost	$399,543
Total Expenses and Transfers	$68,000
Net Normal Cost plus Expenses and Transfers	$467,543
D. Actuarial Liability	
Active	$18,980,150
Vested Terminated	971,470
Non-Vested Terminated Members	249,287
Retirees and Survivors	25,503,391
Total Actuarial Liability	$45,704,298
E. Actuarial Value of Assets	30,370,096
F. Unfunded Actuarial Liability: D – E	$15,334,202
G. Funded Ratio: E/D	66.5%

4. DEVELOPMENT OF THE ACTUARIAL GAIN OR LOSS

		(in millions)
A.	**Gain/(Loss) on Actuarial Liability**	
1.	Actuarial Liability 1/1/19 (7.25%)	42,595
2.	Total Normal Cost 1/1/19 (7.25%)	930
3.	Interest on (1) and (2) at 7.25%	3,156
4.	Benefits paid during 2019 [a]	2,375
5.	Interest on (4) at 7.25% assuming mid-year payment	86
6.	Expected Actuarial Liability 1/1/20 before adjustments: (1)+(2)+(3)-(4)-(5)	44,219
7.	Estimated Increase due to change in assumptions (7.15% investment return assumption)	442
8.	Expected Actuarial Liability 1/1/20: (6)+(7)	44,661
9.	Estimated Total Normal Cost 1/1/20 (7.15%):	991
10.	Interest on (8) and (9) at 7.15%	3,264
11.	Benefits paid during 2020 [a]	2,488
12.	Interest on (11) at 7.15% assuming mid-year payment	89
13.	Expected Actuarial Liability 1/1/21 before adjustments: (8)+(9)+(10)-(11)-(12)	46,340
14.	Increase due to change in assumptions (7.00% investment return assumption & updated mortality improvement scale)	101
15.	Expected Actuarial Liability 1/1/21: (13)+(14)	46,441
16.	Actuarial Liability 1/1/21	45,704
17.	Total Gain/(Loss): (15)-(16)	737

[a] Estimated

4. DEVELOPMENT OF THE ACTUARIAL GAIN OR LOSS
(continued)

		(in millions)
B.	**Gain/(Loss) on assets**	
1.	Actuarial Value of Assets (AVA) 1/1/19	27,137
2.	Interest on (1) at 7.25%	1,967
3.	Net Receipts [b]	709
4.	Net Disbursements [b]	1,618
5.	Net Cash Flow: (3)-(4)	(909)
6.	Interest on (5) at 7.25% assuming mid-year payment	(33)
7.	Expected AVA 1/1/20: (1)+(2)+(5)+(6)	28,162
8.	AVA 1/1/20	28,335
9.	Gain/(Loss) during 2019: (8)-(7)	173
10.	Actuarial Value of Assets (AVA) 1/1/20	28,335
11.	Interest on (10) at 7.15%	2,026
12.	Net receipts [b]	697
13.	Net disbursements [b]	1,592
14.	Net Cash Flow: (12)-(13)	(895)
15.	Interest on (14) at 7.15% assuming mid-year payment	(32)
16.	Expected AVA 1/1/21: (10)+(11)+(14)+(15)	29,434
17.	AVA 1/1/21	30,370
18.	Gain/(Loss) during 2020: (17)-(16)	936
19.	Total Gain/(Loss) on Assets: (9)+(18)	1,109
C.	**Total Gain/(Loss): (A17)+(B19)**	1,846

[b] Amounts actually received or disbursed by the fund

5. PLAN ASSETS

A | SUMMARY OF ASSETS (dollars in thousands unless otherwise specified)

Pension Reserves Investment Trust (State Retirement System)	
Market value	$32,611,969
Actuarial value	$30,370,096

The actuarial value of assets (AVA) is determined so that 20% of the investment gain or loss in a given year is recognized annually for the ensuing five years. Therefore, these investment gains and losses are fully recognized after five years. In addition to this treatment of gains and losses, we use a "corridor" approach so that the AVA can never be too far from the market value of assets. Under our approach for the Commonwealth, the AVA cannot be less than 90% nor greater than 110% of the market value. As of January 1, 2021, the AVA is 93.1% of the market value. The AVA is within the specified corridor.

5. PLAN ASSETS *(continued)*

B | ACTUARIAL VALUE OF ASSETS

A. Development of total investment income including appreciation

(in thousands)

	2019	2020
1. Beginning of Year Market value of assets	26,384,598	29,840,512
2a. Net Receipts *	709,001	696,916
b. Net disbursements *	1,618,233	1,591,866
c. Cash flow: (a) – (b)	(909,232)	(894,950)
3. End of Year Market value of assets	29,840,512	32,611,969
4. Investment income including appreciation: (3) – (1) – (2(c))	4,365,146	3,666,407

B. Expected market value development

1. Beginning of Year Market value of assets	26,384,598	29,840,512
2. Cash flow (A2(c))	(909,232)	(894,950)
3. Expected Return on (1) B1 x 0.0725 for 2019 and B1 x 0.0715 for 2020	1,912,883	2,133,597
4. Expected return on cash flow A2(c) x 0.0725 / 2 for 2019 and A2(c) x 0.0715 / 2 for 2020	(32,960)	(31,994)
5. Expected market value End of Year (1)+(2)+(3)+(4)	27,355,290	31,047,164
C. Gain/(loss) for year: A3-B5	2,485,222	1,564,805

D. Development of Actuarial Value of Assets

1. End of year market value	29,840,512	32,611,969
2a. Asset gain/(loss) in current year	2,485,222	1,564,805
b. Asset gain/(loss) in 1st prior year	(2,477,946)	2,485,222
c. Asset gain/(loss) in 2nd prior year	2,450,373	(2,477,946)
d. Asset gain/(loss) in 3rd prior year	122,188	2,450,373
3. Unrecognized gain/(loss) .8 x [2a] + .6 x [2b] + .4 x [2c] +.2 x [2d]	1,505,997	2,241,873
4. End of year actuarial value of assets: [1] - [3]	28,334,515	30,370,096
5. Actuarial value / Market value	95.0%	93.1%
6. Adjusted actuarial value: (4) but not less than 90% nor greater than 110% of market value	28,334,515	30,370,096

*Reflects actual cash flow of PRIT fund

6. INFORMATION ON SYSTEM MEMBERSHIP

A critical element of an actuarial valuation is accurate and up-to-date membership information. PERAC conducted an extensive review of member data submitted for this valuation.

A | ACTIVE MEMBERS

	Actives	Vested Terminations
Number of Members	87,136	4,570
Average Age	46.9	53.8
Average Service	12.3	15.0
Average Salary	$75,108	$67,511
Average Annuity Savings Fund Balance	$71,709	$73,344

Age by Service Distribution of Active Members

	Years of Service							
Present Age	0 – 4	5 – 9	10 – 14	15 – 19	20 – 24	25 – 29	30+	Total
0 - 24	1,748	3						1,751
25 - 29	5,946	929	4					6,879
30 - 34	5,426	3,884	615	4				9,929
35 - 39	3,656	3,330	2,434	694	10			10,124
40 - 44	2,732	2,383	2,071	1,852	598	5		9,641
45 - 49	2,233	1,845	1,745	1,722	2,041	484	26	10,096
50 - 54	2,129	1,873	1,734	1,819	2,208	1,701	899	12,363
55 - 59	1,699	1,643	1,554	1,595	1,761	1,439	2,433	12,124
60 - 64	1,000	1,258	1,178	1,344	1,323	1,079	1,909	9,091
65+	432	645	731	781	792	565	1,192	5,138
Total	27,001	17,793	12,066	9,811	8,733	5,273	6,459	87,136

6. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

A | ACTIVE MEMBERS *(continued)*

Salary by Age Distribution of Active Members

Present Age	Number of Members	Total Salary	Average Salary
0 - 24	1,751	79,202,924	45,233
25 - 29	6,879	375,898,897	54,644
30 - 34	9,929	633,076,566	63,760
35 - 39	10,124	720,063,605	71,124
40 - 44	9,641	727,654,711	75,475
45 - 49	10,096	798,562,008	79,097
50 - 54	12,363	1,005,000,264	81,291
55 - 59	12,124	1,001,403,147	82,597
60 - 64	9,091	755,421,202	83,096
65+	5,138	448,291,836	87,250
Total	87,136	6,544,575,160	75,108

6. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

B | RETIREES AND SURVIVORS

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Number of Members	56,380	582	3,385	6,554	66,901
Average Age	72.4	64.5	65.3	74.9	72.2
Average Annual Benefit	40,141	21,841	44,769	21,805	38,419

Benefit by Payment and Retirement Type

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Annuity	466,550,785	2,269,583	13,065,934	23,832,554	505,718,856
Pension	1,796,588,427	10,441,593	138,478,405	119,074,299	2,064,582,724
Total	2,263,139,212	12,711,176	151,544,339	142,906,853	2,570,301,580

6. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

B | RETIREES & SURVIVORS *(continued)*

Benefit by Age Distribution

Present Age	Number of Members	Total Benefits	Average Benefits
Less than 40	188	5,654,447	30,077
40 - 44	132	4,533,156	34,342
45 - 49	507	19,435,079	38,333
50 - 54	1,515	65,720,120	43,380
55 - 59	3,881	156,287,370	40,270
60 - 64	8,509	352,979,393	41,483
65 - 69	13,539	570,127,423	42,110
70 - 74	14,821	600,726,435	40,532
75 - 79	10,142	378,651,130	37,335
80 - 84	6,401	215,814,365	33,716
85 - 89	4,162	123,426,047	29,655
90+	3,104	76,946,615	24,790
Totals	66,901	2,570,301,580	38,419

7. VALUATION COST METHODS

A | ACTUARIAL COST METHOD

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the *Entry Age Normal Cost Method***.** Under this method, the *Normal Cost* for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a member of the retirement system, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The *Actuarial Liability* for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactives, retirees and survivors is simply equal to the present value of all projected benefits. The sum of Normal Cost and Actuarial Liability for each member is equal to the Normal Cost and Actuarial Liability for the Plan. The *Unfunded Actuarial Liability* is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the Plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also change due to the addition of new members or the retirement, death or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the Plan provisions or actuarial assumptions are changed.

Differences each year between the actual experience of the Plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is called an *Actuarial Loss* and one which decreases the Unfunded Actuarial Liability is called an *Actuarial Gain.*

B | ASSET VALUATION METHOD

The AVA is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring 2 years ago, etc., so that 100% of gains or losses occurring 5 years ago are recognized. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. The actuarial value of assets as of January 1, 2021 is 93.1% of the market value.

C | ACTUARIAL MODELS

The software we used in our actuarial valuations measures the present value of the plan's actuarial liabilities from which we develop funding schedules that determine annual appropriations for each system. The software was created and is maintained by a national vendor of actuarial software and we have used this software for over 20 years. We periodically review the results of the software by analyzing detailed individual test lives and have compared our results to those of other actuaries using the same data set. The valuation output is prepared before a final review by our actuary.

In addition, we used a simple projection model prepared in a spreadsheet, to perform a rough analysis of the impact of investment returns on the unfunded actuarial liability and funded ratio for the next five years. The work is tailored to each valuation and reviewed by the actuary.

8. ACTUARIAL ASSUMPTIONS

Investment Return

7.00% per year net of investment expenses *(prior assumption 7.25%)*

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgment. We considered analysis prepared by PRIM's investment advisor using a building block approach which included expected returns by asset class, risk analysis, and the determination of a 30-year expected target rate of return.

Interest Rate Credited to the Annuity Savings Fund

3.5% per year

Assumed Rate of Cost of Living Increases (COLA)

3.0% per year (on the first $13,000 of an allowance)

Mortality

Pre-retirement mortality reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2020, set forward 1 year for females. *(Prior assumption reflected the same base table projected generationally with Scale MP-2016.)*

Post-retirement mortality reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2020, set forward 1 year for females. *(Prior assumption reflected the same base table projected generationally with Scale MP-2016.)*

For disabled retirees, mortality reflects the post-retirement mortality described in the previous paragraph, set forward 1 year. *(Prior assumption reflected the same base table projected generationally with Scale MP-2016.)*

It is assumed that 75% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

The mortality assumptions reflect our recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect actual experience from 2012 through 2016 for post-retirement mortality, and professional judgment. As such, this assumption reflects observed current mortality as well as expected mortality improvement.

8. ACTUARIAL ASSUMPTIONS *(continued)*

Salary Increase

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

Service	Groups 1& 2	Group 3	Group 4
0	7.00%	7.00%	9.00%
1	6.50%	7.00%	8.00%
2	6.00%	7.00%	7.50%
3	5.50%	7.00%	7.00%
4	5.50%	6.75%	6.75%
5	5.25%	6.25%	6.25%
6	5.00%	5.25%	5.75%
7	4.75%	4.75%	5.25%
8-12	4.75%	4.75%	4.75%
13-15	4.50%	4.75%	4.75%
16-19	4.25%	4.75%	4.75%
20+	4.00%	4.50%	4.50%

The salary increase assumption reflects both prior experience (2014 study) and professional judgment.

Disability

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

Age	Group 1	Group 2	Group 3	Group 4
20	0.00010	0.00052	0.0010	0.0020
30	0.00010	0.00072	0.0016	0.0021
40	0.00068	0.00210	0.0036	0.0071
50	0.00133	0.00420	0.0094	0.0110
60	0.00120	0.00500	0.0430	0.0080

It is also assumed that 75% of disabilities will be job-related for Group 1 and 2 members, and 95% will be job-related for Group 3 and 4 members.

Disability rates are based on our most recent experience analysis (2014) which reviewed age, gender and job group. Final assumptions reflect this analysis as well as professional judgment.

8. ACTUARIAL ASSUMPTIONS *(continued)*

Retirement

	Group 1		Group 2	Group 3	Group 4
Age	Male	Female			
45	0.000	0.000	0.000	0.020	0.060
46	0.000	0.000	0.000	0.020	0.060
47	0.000	0.000	0.000	0.050	0.060
48	0.000	0.000	0.000	0.050	0.060
49	0.000	0.000	0.000	0.050	0.060
50	0.030	0.030	0.020	0.050	0.060
51	0.030	0.030	0.020	0.060	0.060
52	0.030	0.030	0.020	0.070	0.060
53	0.030	0.030	0.030	0.080	0.075
54	0.030	0.035	0.040	0.090	0.150
55	0.035	0.050	0.075	0.100	0.250
56	0.035	0.050	0.075	0.100	0.150
57	0.040	0.055	0.080	0.110	0.150
58	0.050	0.060	0.100	0.110	0.150
59	0.060	0.065	0.120	0.120	0.150
60	0.090	0.075	0.150	0.140	0.200
61	0.110	0.100	0.150	0.150	0.200
62	0.150	0.150	0.150	0.150	0.200
63	0.150	0.150	0.150	0.150	0.200
64	0.160	0.150	0.200	0.250	0.300
65	0.200	0.200	0.200	0.250	0.500
66	0.200	0.200	0.200	0.250	0.250
67	0.200	0.200	0.200	0.250	0.250
68	0.200	0.200	0.200	0.250	0.250
69	0.200	0.200	0.200	0.250	0.250
70	1.000	1.000	1.000	1.000	1.000

See page 28 for an explanation of retirement rates for employees hired on or after April 2, 2012.

Retirement rates are based on our most recent experience analysis (2014) which reviewed age, service, gender and job group. Final assumptions reflect this analysis as well as professional judgment.

8. ACTUARIAL ASSUMPTIONS *(continued)*

Withdrawal

Based on an analysis of past experience. For Groups 1 and 2, rates are both age and service based for service up to 10 years. After 10 years of service, rates are age based. For groups 3 and 4 rates are service based. Sample annual rates are shown below.

Groups 1 & 2

Age	Service		
	0	5	10+
20	0.270	0.120	0.045
30	0.230	0.100	0.045
40	0.160	0.080	0.030
50	0.180	0.060	0.030

Groups 3 & 4

Service	Group 3	Group 4
0	0.007	0.090
5	0.007	0.060
10	0.005	0.035
15	0.005	0.020
20+	0.005	0.015

See below for an explanation of withdrawal rates for employees hired on or after April 2, 2012.

Withdrawal rates are based on our most recent experience analysis (2014) which reviewed age, service, gender and job group. Final assumptions reflect this analysis as well as professional judgment.

Members Hired on or After April 2, 2012

Chapter 176 of the Acts of 2011 changed the retirement eligibility for the different job groups. For example, Group 1 eligibility changed from 55 years old with 10 years of service to 60 years old with 10 years of service (Chapter 176 removed the provision that allowed retirement at any age with 20 years of service). Our software system is currently programmed such that at any given age, a member is assumed to either retire or terminate, but not both. Therefore, we adjusted the retirement and termination rates for members impacted by Chapter 176. For example, for Group 1 members, we removed retirement rates for ages 50-59. Termination rates remain in effect for those years. We will monitor these assumptions going forward.

Loading and Administrative Expenses

We increased the normal cost by 2% and the actuarial accrued liability of active members by $305 million to account for certain Chapter 32 benefits that cannot be readily valued with our software system. Such benefits include, but are not limited to, benefits provided under Sections 10, 28M, 28N, 65D, and 100. In addition, we increased the normal cost by 1.5% and the actuarial accrued liability of active members by $150 million to estimate the impact of potential changes in job group status for certain members of DMH and Social Services.

9. SUMMARY OF PLAN PROVISIONS

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 3:

Officers and inspectors of the Department of State Police.

Group 4:

Corrections officers, and other specified hazardous positions.

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 – 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
	12% of regular compensation for State Police officers
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is at a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his or her creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three-year (or five-year salary as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

• Salary is defined as gross regular compensation. For employees who become 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 persons who became members prior to April 2, 2012, average salary is the average annual rate of regular compensation received 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 persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

• The benefit rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

• For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

• For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

The allowance of state police officers is calculated using a slightly different formula. Information regarding this formula can be obtained directly from the State Retirement Board.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Group 4 employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides two types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least ten years of creditable service.

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member were age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member were age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There is no minimum age or service requirement.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members-in-service after January 1, 1988 or who have not been members-in-service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $980.88 per year per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full-time student at an accredited educational institution. Veterans, as defined in G.L. c. 32, s. 1, receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $980.88 per year, per child payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member of such a firefighter, public prosecutor, police officer or corrections officer may receive a one-time payment of $300,000.00 from the State Retirement Board.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $12,000.

DEATH IN ACTIVE SERVICE *(OPTION D)*

Allowance: An immediate allowance equal to the Option C benefit that would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. If the member died after age 55, the rate for the actual age is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the rate for the actual age is used. The minimum annual allowance payable to the surviving spouse of a member-in-service who dies with at least two years of creditable service is $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member-in-service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

COST OF LIVING

A cost of living adjustment (COLA) is determined based upon the increase in the Consumer Price Index (CPI) used for indexing Social Security benefits, but cannot exceed 3.0% on the first $13,000 of a retiree's benefit.

9. SUMMARY OF PLAN PROVISIONS *(continued)*

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes effective on or after February 2, 1992, the child, parent, or sibling of the employee) for the life of the beneficiary. If the beneficiary pre-deceases the retiree, the benefit payable to the retiree increases (or "pops up") to Option A based on the factor used to determine the Option C benefit at retirement. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, and did not meet certain other requirements as set forth in the statute, such a pro-ration will be undertaken. This is because such a person will receive a separate retirement allowance from each system.

10. GLOSSARY OF TERMS

ACTUARIAL ACCRUED LIABILITY

That portion of the Actuarial Present Value of pension plan benefits which is not provided by future Normal Costs or employee contributions. It is the portion of the Actuarial Present Value attributable to service rendered as of the Valuation Date.

ACTUARIAL ASSUMPTIONS

Assumptions, based upon past experience or standard tables, used to predict the occurrence of future events affecting the amount and duration of pension benefits, such as: mortality, withdrawal, disablement and retirement; changes in compensation; rates of investment earnings and asset appreciation or depreciation; and any other relevant items.

ACTUARIAL COST METHOD (OR FUNDING METHOD)

A procedure for allocating the Actuarial Present Value of all past and future pension plan benefits to the Normal Cost and the Actuarial Accrued Liability.

ACTUARIAL GAIN OR LOSS (OR EXPERIENCE GAIN OR LOSS)

A measure of the difference between actual experience and that expected based upon the set of Actuarial Assumptions, during the period between two Actuarial Valuation dates.

Note: The effect on the Accrued Liability and/or the Normal Cost resulting from changes in the Actuarial Assumptions, the Actuarial Cost Method or pension plan provisions would be described as such, not as an Actuarial Gain/(Loss).

ACTUARIAL PRESENT VALUE

The dollar value on the valuation date of all benefits expected to be paid to current members based upon the Actuarial Assumptions and the terms of the Plan.

AMORTIZATION PAYMENT

That portion of the pension plan appropriation which represents payments made to pay interest on and the reduction of the Unfunded Accrued Liability.

10. GLOSSARY OF TERMS *(continued)*

ANNUAL STATEMENT

The statement submitted to PERAC each year that describes the asset holdings and Fund balances as of December 31 and the transactions during the calendar year that affected the financial condition of the retirement system.

ANNUITY RESERVE FUND

The fund into which total accumulated deductions, including interest, is transferred at the time a member retires, and from which annuity payments are made.

ANNUITY SAVINGS FUND

The fund in which employee contributions plus interest credited are held for active members and for former members who have not withdrawn their contributions and are not yet receiving a benefit (inactive members).

ASSETS

The value of securities held by the plan.

COST OF BENEFITS

The estimated payment from the pension system for benefits for the fiscal year.

FUNDING SCHEDULE

The schedule based upon the most recently approved actuarial valuation which sets forth the amount which would be appropriated to the pension system in accordance with Section 22C of M.G.L. Chapter 32.

GASB

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10. GLOSSARY OF TERMS *(continued)*

NORMAL COST

Total Normal Cost is that portion of the Actuarial Present Value of pension plan benefits, which is to be paid in a single fiscal year. The Employee Normal Cost is the amount of the expected employee contributions for the fiscal year. The Employer Normal Cost is the difference between the Total Normal Cost and the Employee Normal Cost.

PENSION FUND

The fund into which appropriation amounts as determined by PERAC are paid and from which pension benefits are paid.

PENSION RESERVE FUND

The fund which shall be credited with all amounts set aside by a system for the purpose of establishing a reserve to meet future pension liabilities. These amounts would include excess interest earnings.

SPECIAL FUND FOR MILITARY SERVICE CREDIT

The fund which is credited with amounts paid by the retirement board equal to the amount which would have been contributed by a member during a military leave of absence as if the member had remained in active service of the retirement board. In the event of retirement or a non-job related death, such amount is transferred to the Annuity Reserve Fund. In the event of termination prior to retirement or death, such amount shall be transferred to the Pension Fund.

UNFUNDED ACCRUED LIABILITY

The excess of the Actuarial Accrued Liability over the Assets.

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