

Presentation to the Member Units of the Worcester Regional Retirement System

Fiscal Year 2025 Appropriations

February 6, 2024

Presented by



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Agenda

- Introduction
- Most Recent Valuation - January 1, 2022
- Member Unit Statements
- Summary of Member Unit Data
- FY25 Appropriations
- Why the increase?
- GASB Statements 67 and 68
- Funding and GASB 68
- Questions

Introduction

Linda L. Bournival, FSA, EA, MAAA

- Actuarial Credentials
 - Fellow of the Society of Actuaries
 - Enrolled Actuary under ERISA
 - Member of the American Academy of Actuaries
 - Fellow of the Conference of Consulting Actuaries
 - Member of the Society of Actuaries “Social Insurance and Public Finance” Council

- Over 30 years of Actuarial & Benefits Consulting Experience
 - Public Pension valuation and consulting experience
 - Conducted actuarial audits of large state pension and healthcare systems
 - Pension Obligation Bond consulting and actuarial analysis
 - Retiree healthcare (OPEB) valuations
 - Cities, Towns, Counties, School Districts, Enterprise Units, Housing Authorities and a state university system

Most Recent Valuation – January 1, 2022

- Liabilities developed as of January 1, 2022
 - Membership data as of December 31, 2021
 - Market value of assets as of December 31, 2021
- Results used to develop
 - FY24 and FY25 appropriations
 - Used actuarial method to allocate amongst member units
 - GASB 67 disclosures – 2022 and 2023
 - GASB 68 disclosures – FY23 and FY24

Member Unit Statements

- Statement prepared for each contributing Member Unit
- 2022 valuation results are the basis for appropriations
 - FY24 and FY25
- Contents
 - Summary of Member Data
 - Valuation Results as of January 1, 2022
 - Employer Normal Cost
 - Unfunded Actuarial Accrued Liability
 - FY25 appropriations

Summary of Member Unit Data

- Valuation Results are only as good as the data used
 - Active member data
 - Pensionable compensation
 - Birth date
 - Membership date
 - Gender
 - Member contribution rate
 - Retired member data
 - Pension benefit
 - Birth date
 - Gender
 - Option C beneficiary birth date and gender

Summary of Member Unit Data

Summary of Member Data	Member Unit	Worcester Regional
<i>Active Members</i>	58,083	7,121
Average Age	47.4	47.0
Average Service	11.3	9.6
Valuation Salary	3,686,780	\$352,756,822
Average Salary	\$62,488	\$49,538
<i>Retired Members and Beneficiaries</i>	34,000	3,838
Average Age	72.1	73.0
Total Annual Pension	\$1,193,611	\$91,096,821
Average Annual Pension	\$35,106	\$23,735
<i>Disabled Members - Accidental</i>	-	236
Average Age	-	64.6
Total Annual Pension	\$0	\$9,327,359
Average Annual Pension	\$0	\$39,523
<i>Disabled Members - Ordinary</i>	2,000	38
Average Age	74.6	61.4
Total Annual Pension	\$58,560	\$731,817
Average Annual Pension	\$29,280	\$19,258
<i>Inactive Members</i>	16,000	2,714
Annuity Savings Fund	\$570,225	\$26,264,607

- Fractional member = multi-unit member
- Salaries from different units (for same member) are totaled to develop benefits
- Salaries broken out by unit to develop appropriation

Valuation Results by Member Unit

Employer Normal Cost as of January 1, 2022

a. Total Normal Cost	\$779,155	\$54,862,658
b. Administrative Expenses	17,506	1,328,607
c. Expected Employee Contributions	404,333	34,217,858
d. Employer Normal Cost = a. + b. - c.	\$392,328	\$21,973,407

Unfunded Actuarial Accrued Liability (UAAL) as of January 1, 2022

Actuarial Accrued Liability (AAL):

a. Active Members	\$11,019,838	\$833,725,681
b. Retired Members and Beneficiaries	12,508,087	922,337,478
c. Disabled Members - Accidental	0	109,209,231
d. Disabled Members - Ordinary	557,670	9,034,225
e. Inactive Members	570,225	26,264,607
f. Total AAL = a. + b. + c. + d. + e.	\$24,655,820	\$1,900,571,222

Unfunded Actuarial Accrued Liability (UAAL):

g. Actuarial Accrued Liability = f.	\$24,655,820	\$1,900,571,222
h. Actuarial Value of Assets	12,436,174	966,692,771
i. Unfunded Actuarial Accrued Liability = g. - h.	\$12,219,646	\$933,878,451

- Normal cost is the present value of the benefits earned by active members during the current year
- Actuarial Accrued Liability (AAL) is the present value of benefits earned as of the valuation date
- Assets are allocated to each member unit based on the AAL
- Unfunded Actuarial Accrued Liability = AAL less Actuarial Value of Assets

FY25 Appropriations

- Update payments for 2002 and 2003 ERIs
- Actual Liabilities developed for each member
 - Total liabilities by Member Unit
- Actuarial Value of Assets allocated to each Member Unit
- Appropriation consists of
 - Employer Normal Cost (cost of benefits earned during the year)
 - Amortization Payment towards Unfunded Actuarial Accrued Liability
 - ERI Payments
 - Expected Net 3(8)(c) transfers
 - Administrative Expenses

FY25 Appropriations

FY2025 Appropriation

a. Employer Normal Cost	\$436,979	\$29,183,629
b. Payment on UAL	894,476	68,660,154
c. Payment on 2002 ERI	39,373	1,825,344
d. Payment on 2003 ERI	0	357,880
e. Payment on 2010 ERI	0	0
f. Total Appropriation = a. + b. + c. + d. + e.	\$1,370,828	\$100,027,007
If Total Appropriation paid on July 1, 2024	\$1,347,256	\$98,306,998

- System appropriation increased \$9.1 million over FY24 appropriation (9.95%)
 - Schedule caps increases from year to year at 9.95% through FY2030
 - Reduces appropriation volatility
 - Without cap, FY2025 appropriation would be \$125m, or 25% higher
 - Employer Normal Cost increased by 2.7%
 - Amortization Payments
 - Unfunded Actuarial Accrued Liability increased by 13.5%
 - ERI 2002 and ERI 2003 increased by 4.5%
 - Expected to be fully funded by 2036

- Offer “early payment” discount of 1.72% if total appropriation paid on July 1, 2024

Why the Increase?

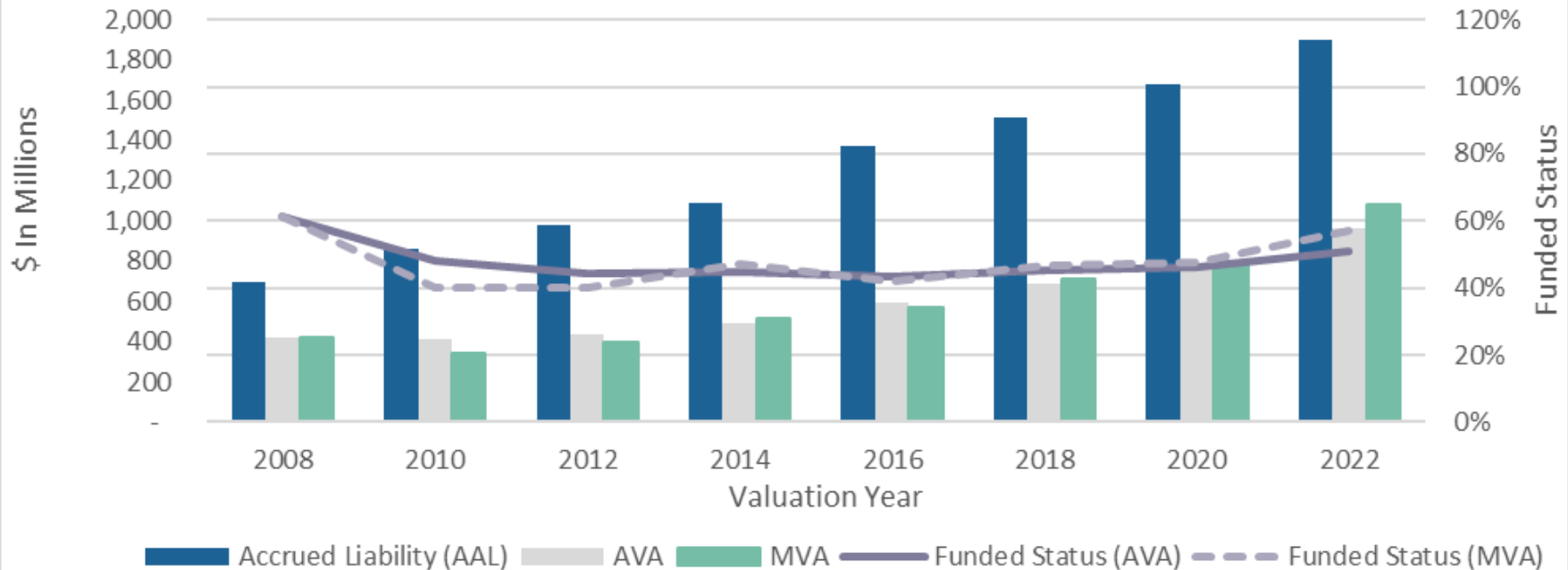
10.8% Increase from FY24 to FY25

Component	FY24	FY25
Normal cost	\$200,000	$\$200,000 + 2.7\% = \$205,400$
Amortization	\$600,000	$\$600,000 + 13.5\% = \$681,000$
Total	\$800,000	$\$886,400 = 10.8\%$ increase

6.3% Increase from FY24 to FY25

Component	FY24	FY25
Normal cost	\$200,000	$\$200,000 + 2.7\% = \$205,400$
Amortization	\$100,000	$\$100,000 + 13.5\% = \$113,500$
Total	\$300,000	$\$318,900 = 6.3\%$ increase

History of Funded Status



- From 2008 to 2022, assets increased from \$450M to 1.1B
- During same period, liabilities increased from \$700M to \$1.9B
 - Decrease in investment return assumption (8.5% to 7.25%)
 - COLA base increases
 - Mortality improvement

Funding and GASB 68

- The liabilities and other information are not the same!

	Funding	GASB 68
Liabilities	Developed as of January 1, 2022	Rolled forward from January 1, 2020 to December 31, 2022
Appropriations	<ul style="list-style-type: none"> • Based on Chapter 32 • Allocated to member units based on actuarial method 	Not applicable
Pension Expense	Not applicable	<ul style="list-style-type: none"> • Based on GASB 68 • Allocated to member units based on FY23 appropriations actually paid

Cost of New Entrant

- Normal cost is the cost of benefits earned during the current year
- The amounts in the table below represent the average normal costs for a new hire at the specified ages in the year of hire, based on member group classification:

Age	Group 1	Group 4
25	\$0	\$4,200
35	\$500	\$7,200
45	\$1,800	\$10,000

- The total normal cost increases annually by 3.5% until retirement, offset by member deductions
- Other issues to consider
 - Prior Massachusetts public sector employment
 - Veteran
 - Salary level

Questions?