

MASSACHUSETTS
Public Employee Retirement Administration Commission
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(617) 666-4446
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www.state.ma.us/PERAC

MEMORANDUM

TO: All Retirement Boards
FROM: Robert A. Dennis, Investment Director
RE: Target Rate of Return
DATE: February 4, 2000

The Public Employee Retirement Administration Commission is in the process of collecting the data for the financial profiles of the retirement boards to be included in this agency's 1999 Annual Report.

Toward this end, we ask for your assistance once again in providing us with your board's Actuarial Assumed Rate of Return and the Target Investment Rate of Return. As previously noted, the two numbers may differ since the Actuarial Rate is calculated as the annual investment return necessary to amortize a system's unfunded pension liability over a specified period while the Target Rate is calculated by considering a system's current asset allocation and the historical rate of return attributed to each asset class. As pointed out in the Asset Allocation section of the "Understanding Investments" training piece (available on the Investment Unit page of the PERAC website), the historical annual rate of return on US stocks since 1926 is slightly above 11% and that of high grade bonds is about 5.5%. A system having an asset allocation of 55% US stocks and 45% bonds would have a Target Return of 8.53% ($.11 \times .55 + .055 \times .45 = .0853$).

Retirement System _____

System Actuarial Rate of Return Assumption _____

Target Investment Rate of Return _____

Please mail the completed form to this office or fax it to (617) 628-4414 by February 11, 2000.

If you have any questions, please call me at (617) 666-4446 ext. 922. Thank you for your cooperation.