

# Hampden County Regional Retirement System

Actuarial Valuation and Review as of  
January 1, 2016





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

*August 30, 2016*

*Board of Trustees  
Hampden County Regional Retirement System  
67 Hunt Street, Suite 106  
Agawam, MA 01001*

*Dear Board Members:*

*We are pleased to submit this Actuarial Valuation and Review as of January 1, 2016. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2017 and later years and analyzes the preceding two years' experience.*

*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 Hampden County Regional Retirement System. That assistance is gratefully acknowledged.*

*The measurements shown in this actuarial valuation may not be applicable for other purposes. 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 (such as the end of an amortization period); and changes in plan provisions or applicable law.*

*An actuarial valuation is a measurement at a specific date – it is not a prediction of a plan's future financial condition. We have not been retained to perform an analysis of the potential range of financial measurements, except where otherwise noted.*

*The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.*

*We look forward to reviewing this report at your next meeting and to answering any questions.*

*Sincerely,*

*Segal Consulting, a Member of The Segal Group, Inc.*

A handwritten signature in cursive script, appearing to read "Kathleen Riley".

*By:*

*Kathleen A. Riley, FSA, MAAA, EA  
Senior Vice President and Actuary*

8422269v1/13353.005

## SECTION 1

### VALUATION SUMMARY

Purpose .....	i
Significant Issues in Valuation Year.....	i
Summary of Key Valuation Results.....	iv
Important Information About Actuarial Valuations .....	v

## SECTION 2

### VALUATION RESULTS

A. Participant Data.....	1
B. Financial Information.....	4
C. Actuarial Experience.....	7
D. Recommended Contribution .....	13

## SECTION 3

### SUPPLEMENTAL INFORMATION

EXHIBIT A Table of Plan Coverage.....	16
EXHIBIT B Participants in Active Service as of December 31, 2015 .....	17
EXHIBIT C Summary Statement of Income and Expenses on an Actuarial Value Basis.....	18
EXHIBIT D Development of the Fund Through December 31, 2015 .....	19
EXHIBIT E Table of ERI and Funding Holiday Amortization Bases as of July 1, 2016.....	20
EXHIBIT F Definitions of Pension Terms .....	21

## SECTION 4

### REPORTING INFORMATION

EXHIBIT I Summary of Actuarial Valuation Results.....	23
EXHIBIT II Funded Ratio.....	24
EXHIBIT III Actuarial Assumptions and Actuarial Cost Method.....	25
EXHIBIT IV Summary of Plan Provisions .....	33

## SECTION 1: Valuation Summary for the Hampden County Regional Retirement System

---

### Purpose

This report has been prepared by Segal Consulting to present a valuation of the Hampden County Regional Retirement System as of January 1, 2016. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. 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 January 1, 2016;
- The assets of the System as of December 31, 2015;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Certain disclosure information required by Governmental Accounting Standards Board Statements Numbers 67 and 68 as of December 31, 2015 for the Hampden County Regional Retirement System, a cost-sharing multiple-employer defined benefit pension plan, is provided in a separate report.

### Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

1. The actuarial valuation report as of January 1, 2016 is based on financial information as of that date. Changes in the value of assets subsequent to that date are not reflected.
2. During the plan years ended 2014 and 2015, the market value rates of return were 7.57% and 1.00%, respectively, compared to the assumed rate of return of 7.875%. Because the actuarial value of assets gradually recognizes market value fluctuations over a five-year period, the actuarial rates of return for the plan years ended 2014 and 2015 were 9.37% and 7.14%, respectively. The actuarial value of assets as of December 31, 2015 was \$312.2 million, or 103.1% of the market value of assets of \$302.8 million reported in the draft financial statements. As of December 31, 2013, the actuarial value of assets was 95.6% of the market value.

## SECTION 1: Valuation Summary for the Hampden County Regional Retirement System

---

3. As indicated in Section 2, Subsection B of this report, the total unrecognized investment loss as of December 31, 2015 is \$9.4 million. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment gains derived from future experience. This implies that earning the assumed rate of investment return on a market value basis will result in investment losses on the actuarial value of assets in the next few years. The funding schedules shown in Section 2 do not reflect the deferred investment losses.
4. This valuation reflects the following changes in actuarial assumptions:
  - The investment return assumption was lowered from 7.875% to 7.75%.
  - The mortality assumption for non-disabled participants was changed from the RP-2000 Combined Healthy Mortality Table projected 20 years using Scale AA to the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 using Scale BB2D.
  - The mortality assumption for disabled participants was changed from the RP-2000 Combined Healthy Mortality Table set forward three years projected 20 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D.
  - A liability of \$15.7 million was added to account for anticipated net 3(8)(c) payments based on the average annual net 3(8)(c) payments over the prior two years and the average demographics of retired participants.
  - The administrative expense assumption was increased from \$675,000 for calendar 2014 to \$875,000 for calendar 2016.

Changing these assumptions resulted in a net increase in the unfunded actuarial accrued liability of \$33.7 million and a net increase in the employer normal cost of \$897,000.
5. The unfunded liability was expected to increase from \$298.6 million as of January 1, 2014 to \$311.7 million as of January 1, 2016. The actual unfunded liability of \$344.7 million is \$33.0 million higher than expected primarily due to the changes in assumptions noted above.

## SECTION 1: Valuation Summary for the Hampden County Regional Retirement System

---

6. The recommended contribution for fiscal 2017 is equal to the previously budgeted amount of \$24,930,322. The results of this valuation will first be reflected in the fiscal 2018 appropriation. We have prepared two funding schedules for the Board to review. The funding schedules in this report and the prior funding schedule are based on amortization payments that increase 4.0% per year and appropriation increases that are capped at 8.0% per year. The funding schedule in Section 2 Chart 16 fully funds the Retirement System by June 30, 2036 with appropriation increases of 8.0% per year through 2024. The funding schedule in Section 2 Chart 17 fully funds the Retirement System one year earlier, or by June 30, 2035, with appropriation increases 8.0% per year through 2026. The prior funding schedule fully funded the System by June 30, 2036 with appropriation increases of 8.0% per year through 2021.
7. The funded ratio has increased from 47.20% as of January 1, 2014 to 47.53% as of January 1, 2016 on an actuarial value basis. On a market value basis, the funded ratio decreased from 49.39% to 46.11%.

**SECTION 1: Valuation Summary for the Hampden County Regional Retirement System**

**Summary of Key Valuation Results**

	<b>2016</b>	<b>2014</b>
<b>Contributions for plan year beginning January 1:</b>		
Recommended for fiscal 2017 and 2015	\$24,930,322	\$21,373,733
Recommended for fiscal 2018 and 2016	26,924,748	23,083,632
Recommended for fiscal 2019 and 2017	29,078,728	24,930,322
<b>Funding elements for plan year beginning January 1:</b>		
Normal cost, including administrative expenses	\$15,786,309	\$14,128,422
Market value of assets (MVA)	302,837,647	279,338,628
Actuarial value of assets (AVA)	312,189,255	266,930,021
Actuarial accrued liability	656,842,104	565,522,818
Unfunded actuarial accrued liability	344,652,849	298,592,797
Funded ratio based on the MVA	46.11%	49.39%
Funded ratio based on the AVA	47.53%	47.20%
<b>Demographic data for plan year beginning January 1:</b>		
Number of retired participants and beneficiaries	1,657	1,581
Number of inactive participants entitled to a return of their employee contributions	368	349
Number of inactive participants with a vested right to a deferred or immediate benefit	59	64
Number of active participants	2,582	2,553
Total payroll	\$102,983,302	\$95,793,669
Average payroll	39,885	37,522

*Note: Payroll figures are for the prior calendar year and reflect annualized salaries for participants hired during the year.*

## SECTION 1: Valuation Summary for the Hampden County Regional Retirement System

---

### 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 Consulting (“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 Hampden County Regional 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 Hampden County Regional Retirement System and 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: Valuation Summary for the Hampden County Regional Retirement System

---

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 Hampden County Regional Retirement System. 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.
- Sections of this report may include actuarial results that are not rounded, but that does not imply precision.
- If the Hampden County Regional Retirement System 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 Hampden County Regional Retirement System should look to their other advisors for expertise in these areas.

As Segal Consulting has no discretionary authority with respect to the management or assets of the Plan, it is not a fiduciary in its capacity as actuaries and consultants with respect to the Plan.

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

---

**A. PARTICIPANT DATA**

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

*A historical perspective of how the participant population has changed over the past six valuations can be seen in this chart.*

**CHART 1**  
**Participant Population: 2006 – 2015**

<b>Year Ended December 31</b>	<b>Active Participants</b>	<b>Inactive Participants</b>	<b>Retired Participants and Beneficiaries</b>	<b>Ratio of Non-Actives to Actives</b>
2006	2,590	509	1,467	0.76
2007	2,681	523	1,461	0.74
2009	2,589	524	1,494	0.78
2011	2,568	403	1,538	0.76
2013	2,553	413	1,581	0.78
2015	2,582	427	1,657	0.81

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**Active Participants**

Plan costs are affected by the age, years of service and payroll of active participants. In this year's valuation, there were 2,582 active participants with an average age of 48.9, average years of service of 12.0 years and average payroll of \$39,885. The 2,553 active participants in the prior valuation had an average age of 49.4, average service of 12.4 years and average payroll of \$37,522.

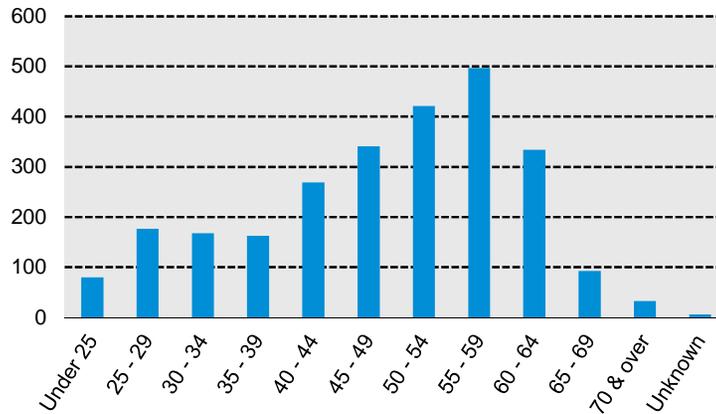
Among the active participants, there were six participants with unknown age and/or service information. The actuarial calculations were adjusted for the missing information by assuming that it was the same as information provided for other active participants with similar known characteristics.

**Inactive Participants**

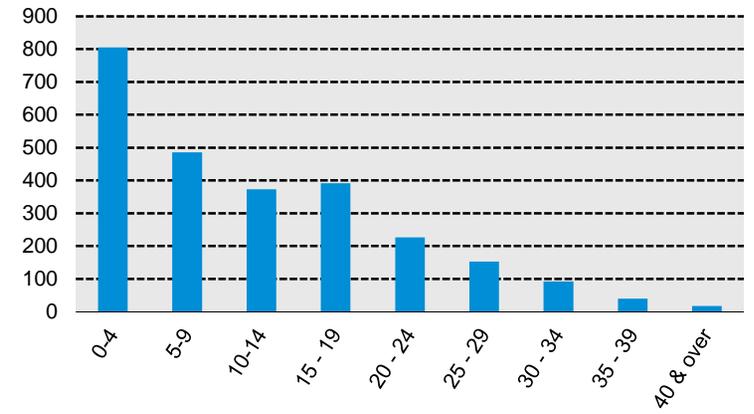
In this year's valuation, there were 59 participants with a vested right to a deferred or immediate vested benefit and 368 participants entitled to a return of their employee contributions.

*These graphs show a distribution of active participants by age and by years of service.*

**CHART 2**  
**Distribution of Active Participants by Age as of December 31, 2015**



**CHART 3**  
**Distribution of Active Participants by Years of Service as of December 31, 2015**



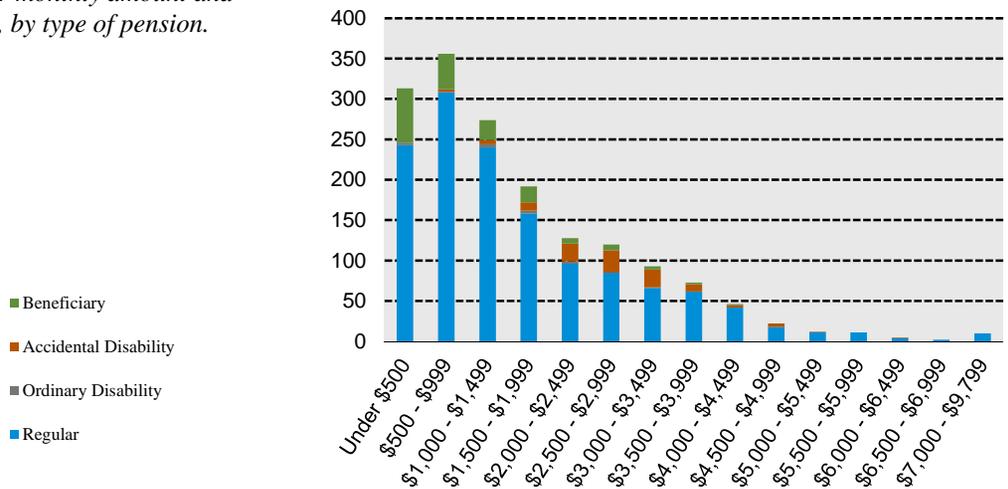
**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**Retired Participants and Beneficiaries**

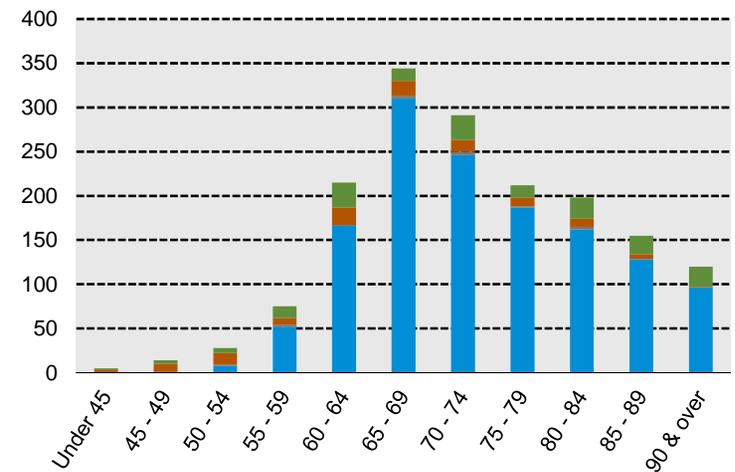
As of December 31, 2015, 1,480 retired participants and 177 beneficiaries were receiving total monthly benefits of \$2,774,152, excluding COLAs reimbursed by the Commonwealth. For comparison, in the previous valuation, there were 1,401 retired participants and 180 beneficiaries receiving monthly benefits of \$2,391,036, excluding COLAs reimbursed by the Commonwealth.

*These graphs show a distribution of the current retired participants and beneficiaries based on their monthly amount and age, by type of pension.*

**CHART 4**  
**Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of December 31, 2015**



**CHART 5**  
**Distribution of Retired Participants and Beneficiaries by Type and by Age as of December 31, 2015**



**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

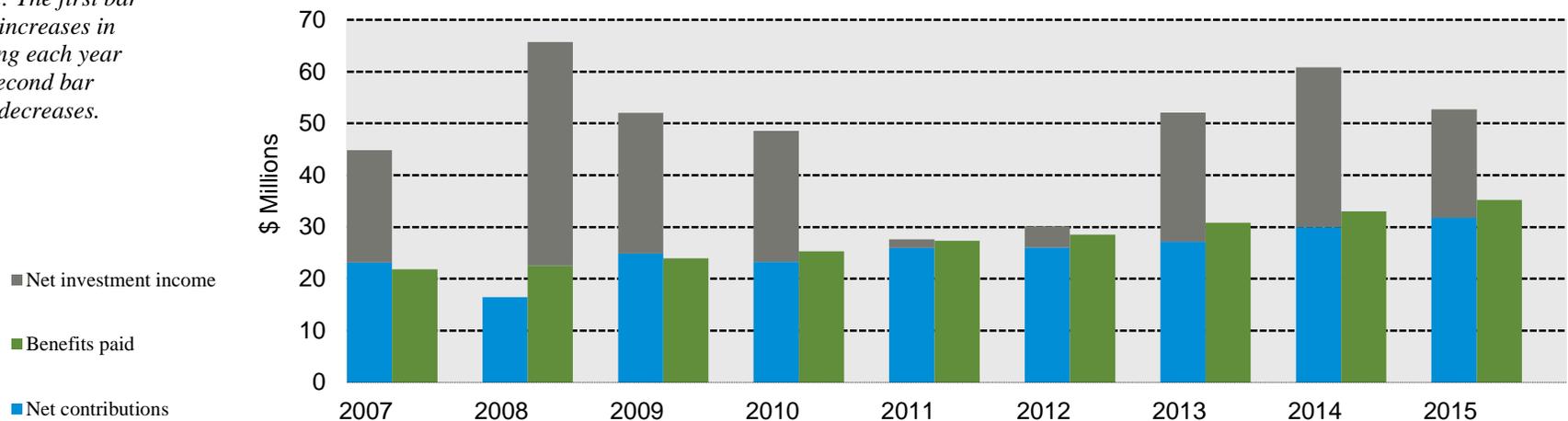
**B. FINANCIAL INFORMATION**

Retirement plan funding anticipates that, over the long term, both contributions (less administrative expenses) and net 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 these transactions for the valuation year, is presented in Section 3, Exhibits C and D.

*The chart depicts the components of changes in the actuarial value of assets over the last nine years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.*

**CHART 6**  
**Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended December 31, 2007 – 2015**



*Note: Net investment income for 2014 includes change in accounting from cash basis to accrual basis.*

## SECTION 2: Valuation Results for the Hampden County Regional Retirement System

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.

*The chart shows the determination of the actuarial value of assets as of the valuation date.*

### CHART 7 Determination of Actuarial Value of Assets

	Year Ended		
	December 31, 2015		December 31, 2014
1. Market value of assets, December 31, 2015		\$302,837,647	\$303,252,123
	Original Amount	Unrecognized Return	Unrecognized Return
2. Calculation of unrecognized return*			
(a) Year ended December 31, 2015	-\$20,733,456	-\$16,586,764	N/A
(b) Year ended December 31, 2014	-844,793	-506,876	-\$675,834
(c) Year ended December 31, 2013	14,345,683	5,738,273	8,607,410
(d) Year ended December 31, 2012	10,018,797	2,003,759	4,007,519
(e) Year ended December 31, 2011	-16,984,874	<u>0</u>	<u>-3,396,975</u>
(f) Total unrecognized return		-9,351,608	8,542,120
3. Preliminary actuarial value: (1) - (2f)		312,189,255	294,709,093
4. Adjustment to be within 10% corridor		0	0
5. Final actuarial value of assets as of December 31, 2015: (3) + (4)		<u>\$312,189,255</u>	<u>\$294,709,093</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)		103.1%	97.2%
7. Amount deferred for future recognition: (1) - (5)		-\$9,351,608	\$8,542,120

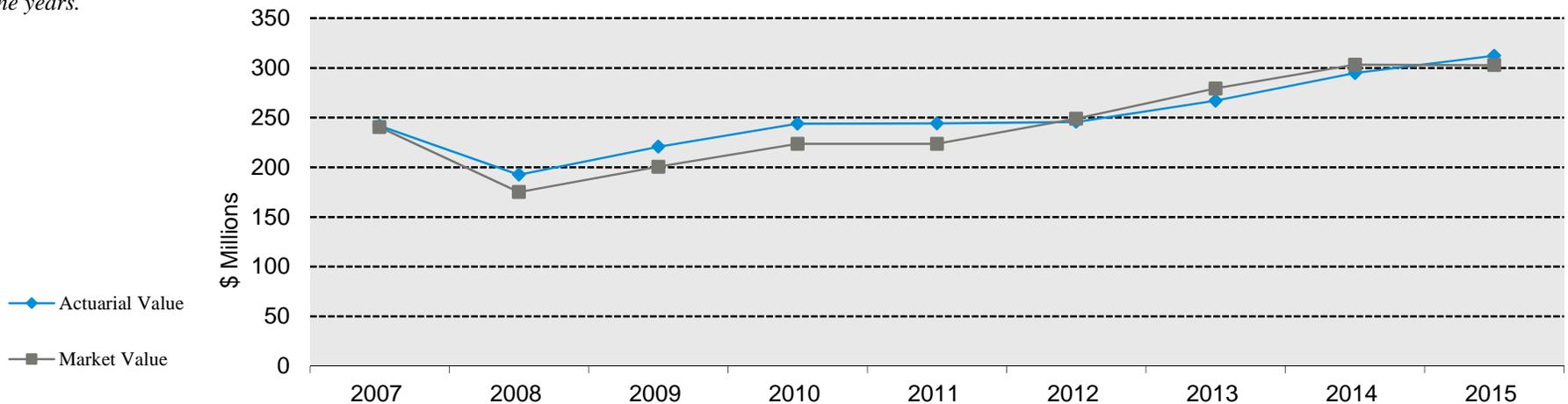
\*Unrecognized return is the difference between total return and expected return on a market value basis and is recognized over a five-year period.

## SECTION 2: Valuation Results for the Hampden County Regional Retirement System

Both the actuarial value and market value of assets are representations of the Hampden County Regional Retirement System'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 Hampden County Regional Retirement System'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.

*This chart shows the change in the actuarial value of assets versus the market value over the past nine years.*

**CHART 8**  
**Actuarial Value of Assets vs. Market Value of Assets as of December 31, 2007 – 2015**



**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

---

**C. ACTUARIAL EXPERIENCE**

To calculate the required 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), the contribution requirement will decrease from the previous year. On the other hand, the 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 net experience gain for the two-year period ending December 31, 2015 is \$755,303, as shown in Chart 9. A discussion of the major components of the actuarial experience is on the following pages.

*This chart provides a summary of the actuarial experience over the past two years.*

---

**CHART 9**  
**Actuarial Experience for Two-Year Period Ended December 31, 2015**

---

1. Net gain from investments*	\$2,146,747
2. Net loss from administrative expenses	-72,109
3. Net loss from other experience**	<u>-1,319,335</u>
4. Net experience gain: (1) + (2) + (3)	\$755,303

---

\* Details in Chart 10

\*\* Details in Chart 13

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**Investment Rate of Return**

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 Hampden County Regional Retirement System’s investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets was 7.875% for 2015 and 2014. The actual rates of return on an actuarial basis for the 2015 and 2014 plan years were 7.14% and 9.37%, respectively.

Since the actual return for the two-year period was greater than the assumed return, the Hampden County Regional Retirement System experienced an actuarial gain of \$2,146,747 (including an adjustment for interest) during the two-year period ending December 31, 2015 with regard to its investments.

*This chart shows the gain/(loss) due to investment experience.*

**CHART 10  
Actuarial Value Investment Experience**

	Year Ended	
	December 31, 2015	December 31, 2014
1. Actual return	\$20,906,397	\$25,124,149
2. Average value of assets	292,995,976	268,257,483
3. Actual rate of return: (1) ÷ (2)	7.14%	9.37%
4. Assumed rate of return	7.875%	7.875%
5. Expected return: (2) x (4)	\$23,073,434	\$21,125,277
6. Actuarial gain/(loss): (1) – (5)	<u>-\$2,167,037</u>	<u>\$3,998,872</u>

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

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 market value investment return for the last nine years, including five-year and nine-year averages.

Based upon this experience and future expectations, we have lowered the assumed rate of return from 7.875% to 7.75%.

**CHART 11**

**Investment Return – Actuarial Value vs. Market Value: 2007 - 2015**

Year Ended December 31	Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent
2007	\$21,673,615	9.88%	\$18,762,540	8.49%
2008	-43,200,913	-18.09	-59,276,841	-24.98
2009	27,137,711	14.06	24,587,312	14.01
2010	25,217,369	11.48	25,034,119	12.55
2011	1,630,346	0.67	1,401,479	0.63
2012	4,152,610	1.71	27,805,747	12.51
2013	24,889,613	10.21	34,110,458	13.81
2014	30,827,174	9.37	21,257,662	7.57
2015	<u>20,906,397</u>	7.14	<u>3,012,669</u>	1.00
Total	\$113,233,922		\$96,695,145	
	Five-year average return	6.10%		6.87%
	Nine-year average return	5.09%		4.59%

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

## SECTION 2: Valuation Results for the Hampden County Regional Retirement System

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

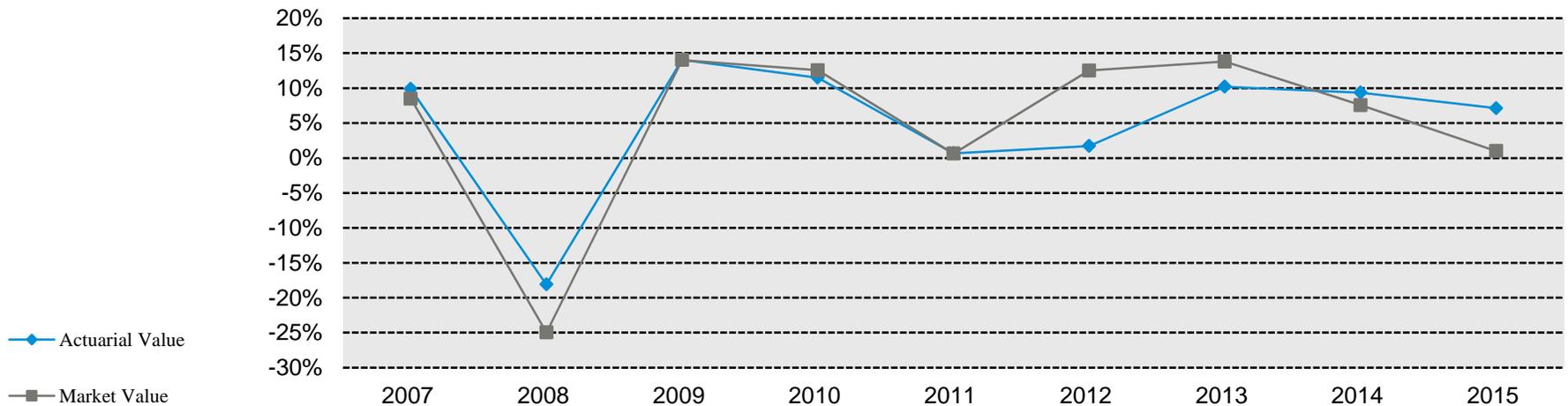
### Administrative Expenses

Administrative expenses for the years ended December 31, 2014 and 2015 were \$739,358 and \$764,647, respectively, compared to the assumption of \$675,000 for calendar year 2014 and \$702,000 for calendar year 2015. This resulted in a loss of \$72,109 for the two-year period, including an adjustment for interest. Based on budgeted expenses provided by the Retirement System, we have increased the assumption to \$875,000 for calendar year 2016.

*This chart illustrates how this leveling effect has actually worked over the years 2007 - 2015.*

**CHART 12**

**Market and Actuarial Rates of Return for Years Ended December 31, 2007 - 2015**



**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**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 the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net loss from this other experience for the two-year period ending December 31, 2015 amounted to \$1,319,335, which is 0.2% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the Hampden County Regional Retirement System for the two-year period ending December 31, 2015 is shown in the chart below.

This valuation reflects the following changes in actuarial assumptions:

- The investment return assumption was lowered from 7.875% to 7.75%.
- The mortality assumption for non-disabled participants was changed from the RP-2000 Combined Healthy Mortality Table projected 20 years using Scale AA to the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 using Scale BB2D.
- The mortality assumption for disabled participants was changed from the RP-2000 Combined Healthy Mortality Table set forward three years projected 20 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D.
- A liability of \$15.7 million was added to account for anticipated net 3(8)(c) payments based on the average annual net 3(8)(c) payments over the prior two years and the average demographics of retired participants.
- The administrative expense assumption was increased from \$675,000 for calendar 2014 to \$875,000 for calendar 2016.

*The chart shows elements of the experience gain/(loss) from other experience for the most recent years.*

**CHART 13**

**Other Experience for Two-Year Period Ended December 31, 2015**

1. Gain from change in accounting from cash basis to accrual basis	\$6,152,138
2. Loss due to fewer deaths than expected among retired members and beneficiaries	-1,428,647
3. Gain from salaries increasing less than expected for continuing actives	814,664
4. Loss from net 3(8)c reimbursements	-3,215,492
5. Miscellaneous experience loss (primarily due to transfer in of employees with service from another retirement system and data changes)	<u>-3,641,998</u>
6. Total	-\$1,319,335

## SECTION 2: Valuation Results for the Hampden County Regional Retirement System

The unfunded liability was expected to increase from \$298.6 million as of January 1, 2014 to \$311.7 million as of January 1, 2016. The actual unfunded liability as of January 1, 2016 of \$344.7 million is \$33.0 million higher than expected as detailed in Chart 14 below.

**CHART 14**  
**Development of Unfunded Actuarial Accrued Liability**

	Year Ended	
	December 31, 2015	December 31, 2014
1. Unfunded actuarial accrued liability at beginning of year	\$305,540,887	\$298,592,797
2. Normal cost at beginning of year, including administrative expenses	14,693,559	14,128,422
3. Total contributions	-32,552,335	-30,713,725
4. Interest		
(a) For whole year on (1) + (2)	\$25,218,462	\$24,626,796
(b) For half year on (3)	<u>-1,158,857</u>	<u>-1,093,403</u>
(c) Total interest	<u>24,059,605</u>	<u>23,533,393</u>
5. Expected unfunded actuarial accrued liability	\$311,741,716	\$305,540,887
6. Changes due to:		
(a) Experience gain	-\$755,303	--
(b) Assumptions	<u>33,666,436</u>	--
(c) Total changes	<u>32,911,133</u>	--
7. Unfunded actuarial accrued liability at end of year	<u>\$344,652,849</u>	--

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**D. RECOMMENDED CONTRIBUTION**

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability.

The recommended contribution for fiscal 2017 is equal to the previously budgeted amount of \$24,930,322. The results of this valuation will first be reflected in the fiscal 2018 appropriation.

We have prepared two funding schedules for the Board to review. The funding schedules in this report and the prior funding schedule are based on amortization payments that increase 4.0% per year and appropriation increases that are capped at 8.0% per year.

The funding schedule in Section 2 Chart 16 fully funds the Retirement System by June 30, 2036 with appropriation increases of 8.0% per year through 2024. The funding schedule in Section 2 Chart 17 fully funds the Retirement System one year earlier, or by June 30, 2035, with 8.0% per year through 2026. The prior funding schedule fully funded the System by June 30, 2036 with appropriation increases of 8.0% through 2021.

*The chart compares this valuation's recommended contribution with the prior valuation.*

**CHART 15  
Recommended Contribution**

	Year Beginning January 1			
	2016	% of Payroll	2014	% of Payroll
1. Total normal cost	\$14,911,309	13.87%	\$13,453,422	13.44%
2. Administrative expenses	875,000	0.81%	675,000	0.67%
3. Expected employee contributions	<u>-10,089,049</u>	<u>-9.38%</u>	<u>-8,955,480</u>	<u>-8.95%</u>
4. Employer normal cost: (1) + (2) + (3)	\$5,697,260	5.30%	\$5,172,942	5.17%
5. Actuarial accrued liability	656,842,104		565,522,818	
6. Actuarial value of assets	<u>312,189,255</u>		<u>266,930,021</u>	
7. Unfunded actuarial accrued liability: (5) - (6)	\$344,652,849		\$298,592,797	
8. Employer normal cost projected to July 1, 2016 and 2014, adjusted for timing	5,905,281	5.40%	5,376,312	5.27%
9. Projected unfunded actuarial accrued liability	357,759,392		310,127,109	
10. Payment on unfunded actuarial accrued liability, adjusted for timing	19,025,041	17.39%	15,997,421	15.67%
11. Total recommended contribution: (8) + (10)	<u>\$24,930,322</u>	<u>22.79%</u>	<u>\$21,373,733</u>	<u>20.94%</u>
12. Projected payroll as of July 1	\$109,394,183		\$102,059,180	

*Notes: Recommended contributions are assumed to be paid on July 1 and December 31.  
Recommended contributions are set equal to the budgeted amount determined with the previous valuation.*

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**CHART 16**  
**Fully funded by 2036**

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of 2002 ERI Liability	(4) Amortization of 2003 ERI Liability	(5) Amortization of Funding Holiday Liability	(6) Amortization of Remaining Unfunded Liability	(7) Total Plan Cost: (2) + (3) + (4) + (5) + (6)	(8) Total Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(9) Total Plan Cost: % Increase
2017	\$5,905,281	\$141,488	\$70,808	\$33,428	\$18,779,317	\$24,930,322	\$357,759,392	--
2018	6,135,960	141,488	70,808	33,428	20,543,064	26,924,748	365,365,253	8.00%
2019	6,375,591	141,488	70,808	33,428	22,457,413	29,078,728	371,695,267	8.00%
2020	6,624,518	--	70,808	33,428	24,676,272	31,405,026	376,491,281	8.00%
2021	6,883,100	--	--	--	27,034,328	33,917,428	379,462,002	8.00%
2022	7,151,709	--	--	--	29,479,113	36,630,822	380,279,360	8.00%
2023	7,430,732	--	--	--	32,130,556	39,561,288	378,574,509	8.00%
2024	7,720,570	--	--	--	35,005,621	42,726,191	373,933,421	8.00%
2025	8,021,640	--	--	--	37,466,719	45,488,359	365,892,039	6.46%
2026	8,334,376	--	--	--	38,965,387	47,299,763	354,624,644	3.98%
2027	8,659,226	--	--	--	40,524,003	49,183,229	340,899,065	3.98%
2028	8,996,657	--	--	--	42,144,963	51,141,620	324,461,394	3.98%
2029	9,347,155	--	--	--	43,830,762	53,177,917	305,035,510	3.98%
2030	9,711,221	--	--	--	45,583,992	55,295,213	282,321,254	3.98%
2031	10,089,380	--	--	--	47,407,352	57,496,732	255,992,463	3.98%
2032	10,482,172	--	--	--	49,303,646	59,785,818	225,694,843	3.98%
2033	10,890,163	--	--	--	51,275,792	62,165,955	191,043,676	3.98%
2034	11,313,935	--	--	--	53,326,824	64,640,759	151,621,343	3.98%
2035	11,754,098	--	--	--	55,459,896	67,213,994	106,974,650	3.98%
2036	12,211,281	--	--	--	57,678,293	69,889,574	56,611,945	3.98%
2037	12,686,138	--	--	--	--	12,686,138	--	-81.85%

Notes: Recommended contributions are assumed to be paid on July 1 and December 31.

Assumes contribution of budgeted amount for fiscal 2017.

Maximum increase in the appropriation from one fiscal year to the next is 8%.

Item (2) reflects 3.5% growth in payroll and 0.15% adjustment to total normal cost to reflect the effects of mortality improvement due to the generational mortality assumption.

Projected normal cost does not reflect the future impact of pension reform for future hires.

Projected unfunded actuarial accrued liability does not reflect deferred investment gains or losses.

**SECTION 2: Valuation Results for the Hampden County Regional Retirement System**

**CHART 17**

**Fully funded by 2035**

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of 2002 ERI Liability	(4) Amortization of 2003 ERI Liability	(5) Amortization of Funding Holiday Liability	(6) Amortization of Remaining Unfunded Liability	(7) Total Plan Cost: (2) + (3) + (4) + (5) + (6)	(8) Total Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(9) Total Plan Cost: % Increase
2017	\$5,905,281	\$141,488	\$70,808	\$33,428	\$18,779,317	\$24,930,322	\$357,759,392	--
2018	6,135,960	141,488	70,808	33,428	20,543,064	26,924,748	365,365,253	8.00%
2019	6,375,591	141,488	70,808	33,428	22,457,413	29,078,728	371,695,267	8.00%
2020	6,624,518	--	70,808	33,428	24,676,272	31,405,026	376,491,281	8.00%
2021	6,883,100	--	--	--	27,034,328	33,917,428	379,462,002	8.00%
2022	7,151,709	--	--	--	29,479,113	36,630,822	380,279,360	8.00%
2023	7,430,732	--	--	--	32,130,556	39,561,288	378,574,509	8.00%
2024	7,720,570	--	--	--	35,005,621	42,726,191	373,933,421	8.00%
2025	8,021,640	--	--	--	38,122,646	46,144,286	365,892,039	8.00%
2026	8,334,376	--	--	--	41,501,453	49,835,829	353,930,949	8.00%
2027	8,659,226	--	--	--	43,834,615	52,493,841	337,469,518	5.33%
2028	8,996,657	--	--	--	45,588,000	54,584,657	317,264,822	3.98%
2029	9,347,155	--	--	--	47,411,520	56,758,675	293,639,919	3.98%
2030	9,711,221	--	--	--	49,307,981	59,019,202	266,255,569	3.98%
2031	10,089,380	--	--	--	51,280,300	61,369,680	234,743,274	3.98%
2032	10,482,172	--	--	--	53,331,512	63,813,684	198,702,892	3.98%
2033	10,890,163	--	--	--	55,464,773	66,354,936	157,700,061	3.98%
2034	11,313,935	--	--	--	57,683,364	68,997,299	111,263,418	3.98%
2035	11,754,098	--	--	--	59,990,698	71,744,796	58,881,599	3.98%
2036	12,211,281	--	--	--	--	12,211,281	--	-82.98%
2037	12,686,138	--	--	--	--	12,686,138	--	3.89%

Notes: Recommended contributions are assumed to be paid on July 1 and December 31.  
 Assumes contribution of budgeted amount for fiscal 2017.  
 Maximum increase in the appropriation from one fiscal year to the next is 8%.  
 Item (2) reflects 3.5% growth in payroll and 0.15% adjustment to total normal cost to reflect the effects of mortality improvement due to the generational mortality assumption.  
 Projected normal cost does not reflect the future impact of pension reform for future hires.  
 Projected unfunded actuarial accrued liability does not reflect deferred investment gains or losses.

**SECTION 3: Supplemental Information for the Hampden County Regional Retirement System**

**EXHIBIT A**

**Table of Plan Coverage**

<b>Category</b>	<b>Year Ended December 31</b>		<b>Change From Prior Year</b>
	<b>2015</b>	<b>2013</b>	
<b>Active participants in valuation:</b>			
Number	2,582	2,553	1.1%
Average age	48.9	49.4	N/A
Average years of service	12.0	12.4	N/A
Total payroll for prior year	\$102,983,302	\$95,793,669	7.5%
Average payroll for prior year	39,885	37,522	6.3%
Member contributions	92,035,945	88,074,094	4.5%
Number with unknown age information	6	3	100.0%
<b>Inactive participants with a vested right to a deferred or immediate benefit</b>	59	64	-7.8%
<b>Inactive participants entitled to a return of their employee contributions</b>	368	349	5.4%
<b>Retired participants:</b>			
Number in pay status	1,356	1,282	5.8%
Average age	73.8	74.2	N/A
Average monthly benefit	\$1,677	\$1,513	10.8%
<b>Disabled participants:</b>			
Number in pay status	124	119	4.2%
Average age	65.7	64.9	N/A
Average monthly benefit	\$2,601	\$2,457	5.9%
<b>Beneficiaries in pay status:</b>			
Number in pay status	177	180	-1.7%
Average age	73.7	72.8	N/A
Average monthly benefit	\$1,006	\$884	13.8%

**SECTION 3: Supplemental Information for the Hampden County Regional Retirement System**

**EXHIBIT B**

**Participants in Active Service as of December 31, 2015  
By Age, Years of Service, and Average Payroll**

Age	Years of Service									
	Total	0-4	5-9	10-14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & over
Under 25	80	80	--	--	--	--	--	--	--	--
	\$25,852	\$25,852	--	--	--	--	--	--	--	--
25 - 29	177	151	26	--	--	--	--	--	--	--
	\$38,835	\$35,859	\$56,121	--	--	--	--	--	--	--
30 - 34	168	92	52	23	1	--	--	--	--	--
	\$42,454	\$36,698	\$46,256	\$54,879	\$88,595	--	--	--	--	--
35 - 39	163	75	35	31	20	2	--	--	--	--
	\$41,937	\$28,802	\$46,853	\$53,276	\$62,042	\$71,704	--	--	--	--
40 - 44	269	100	59	32	52	21	5	--	--	--
	\$44,061	\$28,596	\$36,630	\$49,102	\$64,157	\$74,953	\$70,030	--	--	--
45 - 49	341	92	88	60	49	34	15	3	--	--
	\$41,084	\$27,675	\$31,329	\$43,135	\$55,054	\$65,588	\$61,911	\$87,407	--	--
50 - 54	421	87	86	73	69	36	42	21	7	--
	\$41,206	\$29,788	\$31,552	\$33,436	\$40,222	\$57,772	\$64,270	\$74,538	\$68,879	--
55 - 59	497	78	81	83	111	55	36	30	19	4
	\$38,278	\$32,365	\$30,251	\$34,956	\$33,153	\$42,021	\$44,420	\$67,447	\$66,140	\$69,415
60 - 64	334	39	44	52	62	63	32	23	11	8
	\$40,278	\$29,611	\$34,211	\$33,603	\$37,991	\$38,393	\$45,098	\$62,056	\$62,638	\$88,954
65 - 69	93	4	9	13	18	13	18	13	2	3
	\$36,407	\$28,114	\$24,621	\$28,584	\$36,040	\$39,558	\$33,678	\$44,660	\$55,216	\$73,339
70 & over	33	1	5	6	9	2	5	3	--	2
	\$27,625	\$5,511	\$19,356	\$37,628	\$28,923	\$19,286	\$25,652	\$39,490	--	\$18,979
Unknown	6	6	--	--	--	--	--	--	--	--
	\$14,867	\$14,867	--	--	--	--	--	--	--	--
<b>Total</b>	<b>2,582</b>	<b>805</b>	<b>485</b>	<b>373</b>	<b>391</b>	<b>226</b>	<b>153</b>	<b>93</b>	<b>39</b>	<b>17</b>
	<b>\$39,885</b>	<b>\$30,935</b>	<b>\$35,897</b>	<b>\$39,571</b>	<b>\$43,690</b>	<b>\$50,044</b>	<b>\$50,685</b>	<b>\$64,272</b>	<b>\$65,083</b>	<b>\$73,368</b>

**SECTION 3: Supplemental Information for the Hampden County Regional Retirement System**

**EXHIBIT C**

**Summary Statement of Income and Expenses on an Actuarial Value Basis**

	Year Ended December 31, 2015	Year Ended December 31, 2014
<b>Net assets at actuarial value at the beginning of the year</b>	\$294,709,093	\$266,930,021
<b>Contribution income:</b>		
Employer contributions	\$22,876,301	\$21,373,733
Employee contributions	9,676,034	9,339,992
Less administrative expenses	<u>-764,647</u>	<u>-739,358</u>
Net contribution income	31,787,688	29,974,367
<b>Investment income:</b>	<u>20,906,397</u>	<u>30,827,174</u>
<b>Total income available for benefits</b>	\$52,694,085	\$60,801,541
<b>Less benefit payments:</b>		
Pensions, annuities, refunds, and net transfers	-\$33,492,326	-\$31,528,574
Net 3(8)(c) reimbursements	<u>-1,721,597</u>	<u>-1,493,895</u>
Net benefit payments	-\$35,213,923	-\$33,022,469
<b>Change in reserve for future benefits</b>	\$17,480,162	\$27,779,072
<b>Net assets at actuarial value at the end of the year</b>	\$312,189,255	\$294,709,093

*Note: Net investment income for 2014 includes change in accounting from cash basis to accrual basis.*

**SECTION 3: Supplemental Information for the Hampden County Regional Retirement System**

**EXHIBIT D**

**Development of the Fund Through December 31, 2015**

<b>Year Ended December 31</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Other Contributions</b>	<b>Net Investment Return*</b>	<b>Administrative Expenses</b>	<b>Benefit Payments</b>	<b>Actuarial Value of Assets at End of Year</b>
2007	\$16,469,215	\$7,259,670	\$5,876	\$21,673,615	\$542,399	\$21,815,716	\$241,788,905
2008	9,392,429**	7,693,249	12,145	-43,200,913	617,237	22,537,134	192,531,444
2009	17,676,386	7,732,199	3,357	27,137,711	507,908	23,987,358	220,585,830
2010	15,624,570	8,203,313	191	25,217,369	515,546	25,336,242	243,779,485
2011	18,283,839	8,280,286	5,318	1,630,346	577,214	27,348,407	244,053,652
2012	18,273,963	8,375,821	5,288	4,152,610	635,324	28,522,558	245,703,452
2013	18,741,959	9,111,120	585	24,889,613	668,761	30,847,947	266,930,021
2014	21,373,733	9,339,992	0	30,827,174***	739,358	33,022,469	294,709,093
2015	22,876,301	9,676,034	0	20,906,397	764,647	35,213,923	312,189,255

\* *Net of investment fees*

\*\* *Adjusted for accounts receivable reflected in 2007.*

\*\*\* *Includes change in accounting from cash basis to accrual basis*

**SECTION 3: Supplemental Information for the Hampden County Regional Retirement System**

---

---

**EXHIBIT E**

**Table of ERI and Funding Holiday Amortization Bases as of July 1, 2016**

---

<b>Type</b>	<b>Annual Payment</b>	<b>Years Remaining</b>	<b>Outstanding Balance</b>
2002 ERI	\$141,488	3	\$387,370
2003 ERI	70,808	4	249,417
Funding Holiday	33,428	4	117,747

---

*Note: Level annual payments assumed to be made on July 1 and December 31.*

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**EXHIBIT F**

**Definitions of Pension Terms**

---

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

**Assumptions or actuarial assumptions:**

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Withdrawal rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

**Normal cost:**

The amount of contributions required to fund the benefit allocated to the current year of service.

**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:**

The single-sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

**Unfunded actuarial accrued liability:**

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There are many approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

## SECTION 4: Reporting Information for the Hampden County Regional Retirement System

---

**Amortization of the unfunded actuarial accrued liability:**

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

**Investment return:**

The rate of earnings of the Plan 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.

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

**EXHIBIT I**

**Summary of Actuarial Valuation Results**

The valuation was made with respect to the following data supplied to us:

1. Retired participants as of the valuation date (including 177 beneficiaries in pay status)	1,657
2. Participants active during the year ended December 31, 2015 with total accumulated contributions of \$92,035,945 and projected 2016 payroll of \$107,528,616	2,582
3. Inactive participants with a right to a return of their employee contributions as of December 31, 2015	368
4. Inactive participants with a vested right to a deferred or immediate benefit as of December 31, 2015	59

The actuarial factors as of the January 1, 2016 valuation date are as follows:

1. Normal cost	\$14,911,309
2. Administrative expenses	875,000
3. Expected employee contributions	<u>-10,089,049</u>
4. Employer normal cost: (1) + (2) + (3)	\$5,697,260
5. Actuarial accrued liability	656,842,104
Retired participants and beneficiaries	\$347,033,019
Active participants	303,193,843
Inactive participants	6,615,242
6. Actuarial value of assets (\$302,837,647 at market value as reported on the draft financial statements)	<u>312,189,255</u>
7. Unfunded actuarial accrued liability: (5) – (6)	<u>\$344,652,849</u>

The actuarial factors projected to July 1, 2016 are as follows:

1. Employer normal cost projected to July 1, 2016, adjusted for timing	\$5,905,281
2. Projected unfunded actuarial accrued liability	357,759,392
3. Payment on projected unfunded actuarial accrued liability, adjusted for timing	19,025,041
4. Recommended fiscal 2017 contribution (1) + (3)	<u>\$24,930,322</u>
5. Projected payroll	\$109,394,183
6. Total budgeted appropriation as a percentage of projected payroll: (4) ÷ (5)	22.79%

*Notes: Recommended contribution is assumed to be paid on July 1 and December 31.*

*Recommended contribution set equal to the budgeted amount determined with the previous valuation.*

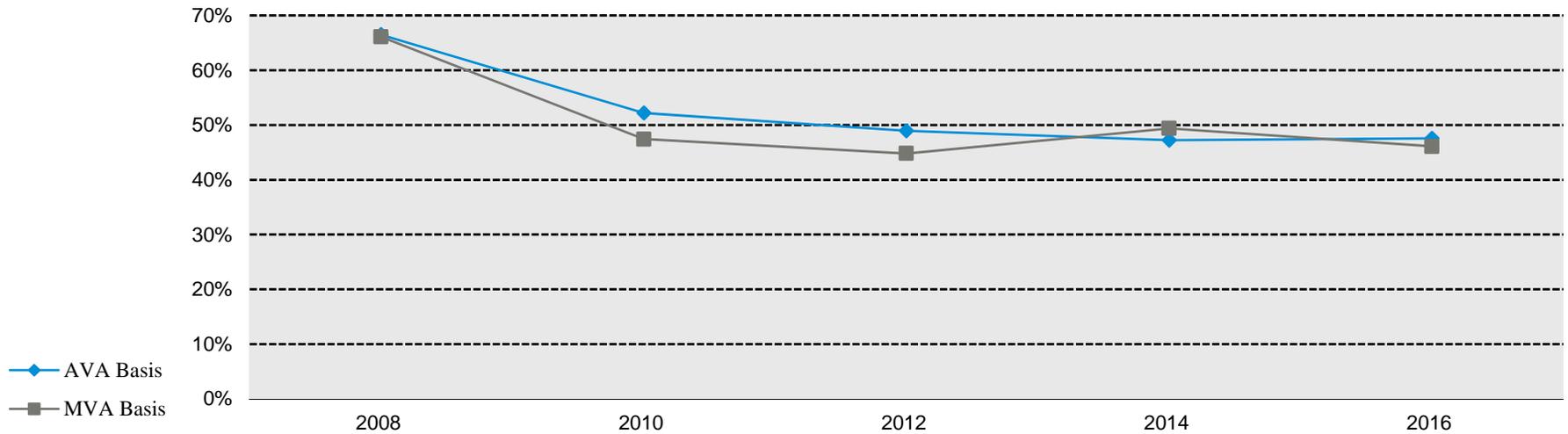
**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

**EXHIBIT II  
Funded Ratio**

A critical piece of information regarding the System's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the System as calculated. High ratios indicate a well-funded plan with assets sufficient to cover the plan's actuarial accrued liabilities. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other factors.

These measurements are not necessarily appropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligation or the need for or the amount of future contributions.

The chart below depicts a history of the funded ratios for this plan. On a market value basis, the funded ratio has decreased from 49.39% as of January 1, 2014 to 46.11% as of January 1, 2016. On an actuarial value basis, the funded ratio has increased from 47.20% as of January 1, 2014 to 47.53% as of January 1, 2016.



**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**EXHIBIT III**

**Actuarial Assumptions and Actuarial Cost Method**

---

**Mortality Rates:**

- Pre-Retirement:* RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D (Previously, RP-2000 Combined Healthy Mortality Table projected 20 years with Scale AA)
- Healthy Retiree:* RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2D (Previously, RP-2000 Combined Healthy Mortality Table projected 20 years with Scale AA)
- Disabled Retiree:* RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D (Previously, RP-2000 Combined Healthy Mortality Table set forward three years projected 20 years with Scale AA)

The underlying tables with generational projection to the ages of participants as of the measurement date reasonably reflect the 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' assumption over the most recent six years. The mortality tables were then adjusted to future years using the generational projection to reflect future mortality improvement between the measurement date and those years.

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**Termination Rates before Retirement:**

Age	Groups 1 and 2 - Rate (%)				Disability
	Mortality		Mortality		
	Current	Previous	Current	Previous	
	Male	Female	Male	Female	
20	0.03	0.02	0.02	0.01	0.01
25	0.04	0.02	0.03	0.02	0.02
30	0.04	0.03	0.04	0.02	0.04
35	0.08	0.05	0.07	0.04	0.06
40	0.11	0.07	0.09	0.05	0.10
45	0.15	0.11	0.12	0.08	0.15
50	0.21	0.17	0.15	0.12	0.19
55	0.30	0.25	0.25	0.23	0.24
60	0.49	0.39	0.49	0.46	0.28

*Notes: 55% of the disability rates shown represent accidental disability.  
 20% of the accidental disabilities will die from the same cause as the disability.  
 55% of the death rates shown represent accidental death.*

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---



---

Age	Group 4 – Rate (%)				Disability
	Mortality				
	Current		Previous		
	Male	Female	Male	Female	
20	0.03	0.02	0.02	0.01	0.10
25	0.04	0.02	0.03	0.02	0.20
30	0.04	0.03	0.04	0.02	0.30
35	0.08	0.05	0.07	0.04	0.30
40	0.11	0.07	0.09	0.05	0.30
45	0.15	0.11	0.12	0.08	1.00
50	0.21	0.17	0.15	0.12	1.25
55	0.30	0.25	0.25	0.23	1.20
60	0.49	0.39	0.49	0.46	0.85

*Notes: 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: Reporting Information for the Hampden County Regional Retirement System**

---

**Withdrawal Rates:**

Years of Service	Rate per year (%)		Group 4
	Groups 1 and 2	Years of Service	
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' assumption over the most recent six years.

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

Retirement Rates:	Age	Rate per year (%)		Group 4
		Groups 1 and 2		
		Male	Female	
	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' assumption over the most recent six years.

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**Retirement Age for Inactive Vested Participants:**

Age 60 for Group 1 and Group 2 members and age 55 for Group 4 members hired prior to April 2, 2012. For members hired April 2, 2012 or later, age 60 for Group 1 members, age 55 for Group 2 members and age 50 for Group 4 members.

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. If not specified, participants are assumed to be male.

**Inactive Participants:**

Call firefighters and reserve police officers are not expected to earn 10 years of creditable service and are included with the inactive participants eligible for a refund of their contributions.

**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.

---

**Net Investment Return:**

7.75% (previously, 7.875%)

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.

**Interest on Employee Contributions:** 3.5%

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**Salary Increases:**

<b>Years of Service</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 4</b>
0	6.00%	6.00%	7.00%
1	5.50%	5.50%	6.50%
2	5.50%	5.50%	6.00%
3	5.25%	5.25%	5.75%
4	5.25%	5.25%	5.25%
5	4.75%	4.75%	5.25%
6	4.75%	4.75%	4.75%
7	4.50%	4.50%	4.75%
8	4.50%	4.50%	4.75%
9+	4.25%	4.50%	4.75%

*Includes an allowance for inflation of 3.5% per year.*

**Administrative Expenses:**

\$875,000 for calendar year 2016, increasing 3.5% per year (previously, \$675,000 for calendar year 2014, increasing 4.0% per year)

The administrative expense assumption is based on information on expenses provided by the Retirement System.

**2015 Salary:**

2015 salaries are equal to salaries provided in the data, except for actives missing salary, where salaries are calculated from annualized contributions divided by the contribution rates provided.

**Total Service:**

Total creditable service reported in the data.

**Net 3(8)(c) Liability:**

Estimated liability of \$15.7 million based on the average annual net 3(8)(c) payments over the prior two years and the average demographics of retired participants. (Previously, no liability included for benefits paid to or received from other municipal systems.)

## SECTION 4: Reporting Information for the Hampden County Regional Retirement System

---

<b>Actuarial Value of Assets:</b>	Market value of assets less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual market value return and the expected market value return and is recognized at 20% per year over a five-year period, further adjusted, if necessary, to be within 10% of the market value.  Market value of assets as reported in the draft financial statements.
<b>Actuarial Cost Method:</b>	Entry Age Normal Actuarial Cost Method. Entry Age is the age of the participant less total creditable service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary. Normal Cost is determined by using the plan of benefits applicable to each participant.

---

<b>Justification for Changes in Assumptions:</b>	Based on past experience and future expectations, the following actuarial assumptions were changed: <ul style="list-style-type: none"><li>➤ The investment return assumption was lowered from 7.875% to 7.75%.</li><li>➤ The mortality assumption for non-disabled participants was changed from the RP-2000 Combined Healthy Mortality Table projected 20 years using Scale AA to the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 using Scale BB2D.</li><li>➤ The mortality assumption for disabled participants was changed from the RP-2000 Combined Healthy Mortality Table set forward three years projected 20 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D.</li><li>➤ A liability of \$15.7 million was added to account for anticipated net 3(8)(c) payments based on the average annual net 3(8)(c) payments over the prior two years and the average demographics of retired participants.</li><li>➤ The administrative expense assumption was increased from \$675,000 for calendar 2014 to \$875,000 for calendar 2016.</li></ul>
--	--

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

**EXHIBIT IV**

**Summary of Plan Provisions**

---

This exhibit summarizes the major provisions of Chapter 32 of the Laws of Massachusetts.

---

**Plan Year:** January 1 – December 31

---

**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**

<b>Percent</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 4</b>
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

**SECTION 4: Reporting Information for the Hampden County Regional Retirement System**

---

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**

<b>Percent</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 4</b>
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**

<b>Percent</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 4</b>
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: Reporting Information for the Hampden County Regional Retirement System**

---

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**

<u>Date of Hire</u>	<u>Contribution Rate</u>
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.

## SECTION 4: Reporting Information for the Hampden County Regional Retirement System

---

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.

---

### Ordinary Disability Benefits

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.

## SECTION 4: Reporting Information for the Hampden County Regional Retirement System

---

### 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 \$750 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.

## SECTION 4: Reporting Information for the Hampden County Regional Retirement System

---

---

### 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.

---

### 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 \$18,000 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

None.