

City of Salem Contributory Retirement System

*Actuarial Valuation and Review
as of January 1, 2006*

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June 28, 2006

*City of Salem Contributory Retirement System
20 Central Street, Suite 110
Salem, MA 01970*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2007 and later years and analyzes the preceding year's experience.

The census information and financial information on which our calculations were based was prepared by the staff of the Salem Retirement System. That assistance is gratefully acknowledged. The actuarial calculations were completed under my supervision.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our 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,

THE SEGAL COMPANY

*By: _____
Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary
255784/03884.002*

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SECTION 1: Valuation Summary for the City of Salem Contributory Retirement System

Purpose

This report has been prepared by The Segal Company to present a valuation of the City of Salem Contributory Retirement System as of January 1, 2006. 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 M.G.L. Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of January 1, 2006;
- The assets of the Plan as of December 31, 2005;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

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

- The actuarial valuation report as of January 1, 2006 is based on financial information as of that date. Changes in the value of assets subsequent to that date are not reflected.
- During the plan year ended 2005, the market value rate of return was 4.70%. Because the actuarial value of assets gradually recognizes market value fluctuations over a five-year period, the actuarial rate of return for the plan year ended 2005 was 3.96%. The actuarial value of assets as of December 31, 2005 was \$84.8 million, or 103.2% of the market value of assets.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment loss as of December 31, 2005 is \$2.6 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 of 8.25% per year (net of expenses) on a **market value** basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.25% rate and all other actuarial assumptions are met, the contribution requirements would still increase in each of the next few years.

SECTION 1: Valuation Summary for the City of Salem Contributory Retirement System

- As of January 1, 2005 the System had an unfunded liability of \$74.7 million. The unfunded liability has increased to \$82.2 million as of January 1, 2006 due to an experience loss and changes in assumptions discussed below.
- The following actuarial assumption was changed with this valuation:
 - The investment return assumption was lowered from 8.50% to 8.25%.
 - A liability for a deferred retirement allowance has been calculated for inactive vested members with a reported final average salary.
 - We have assumed that 20% of Group 1 members who retire on accidental disability and 60% of Group 4 members who retire on accidental disability will die from the same cause as the disability.
 - We have assumed that 55% of Group 1 deaths and 90% of Group 4 deaths are accidental.
 - In 2004, the Public Employee Retirement Administration Commission approved a new mortality table and interest rate to be used in the calculation of the optional form of payment factors. This valuation reflects the change to the new factors.
 - Changing these assumptions resulted in a net increase in the unfunded liability of \$5,660,446 and an increase in the employer normal cost of \$249,136.
- Because the fiscal 2007 appropriation has already been budgeted at \$8,431,371, the results of this valuation will first be reflected in the fiscal year 2008 appropriation of \$9,202,432. The current funding schedule fully amortizes the unfunded liability by June 30, 2025. The prior funding schedule fully funded the System by June 30, 2024.

SECTION 1: Valuation Summary for the City of Salem Contributory Retirement System

Summary of Key Valuation Results

	January 1, 2006	January 1, 2005
Contributions:		
Recommended for fiscal 2007 and 2006	\$8,431,371	\$8,136,356
Funding elements for plan year beginning January 1:		
Normal cost, including administrative expenses	\$5,213,311	\$4,645,698
Market value of assets	82,180,973	78,725,088
Actuarial value of assets	84,796,044	81,801,377
Actuarial accrued liability	166,958,606	156,479,479
Unfunded actuarial accrued liability	82,162,562	74,678,102
GASB 25/27:		
Annual required contributions	\$8,431,371	\$8,052,556
Actual contributions	--	8,052,556
Percentage contributed	--	100.0%
Funded ratio	50.79%	52.28%
Demographic data for plan year beginning January 1:		
Number of retired participants and beneficiaries	614	618
Number of inactive participants entitled to a return of their employee contributions	149	146
Number of inactive participants with a vested right to a deferred or immediate benefit	21	N/A
Number of active participants	831	840
Total payroll ¹	\$31,143,877	\$29,842,680
Average payroll ¹	37,478	35,527

¹ Calendar year 2005 payroll figures were increased by 4.5% for firefighters to reflect unsettled bargaining contracts.

SECTION 2: Valuation Results for the City of Salem Contributory 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 four valuations can be seen in this chart.

CHART 1
Participant Population: 2002 – 2005

Year Ended December 31	Active Participants	Inactive Participants	Retired Participants and Beneficiaries
2002	876	117	586
2003	839	129	607
2004	840	146	618
2005	831	170	614

SECTION 2: Valuation Results for the City of Salem Contributory 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 831 active participants with an average age of 47.8, average years of service of 10.7 years and average payroll of \$37,478. The 840 active participants in the prior valuation had an average payroll of \$35,527.

Among the active participants, there were none with unknown age and/or service information.

Inactive Participants

In this year's valuation, there were 21 participants with a vested right to a deferred or immediate vested benefit and 149 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, 2005

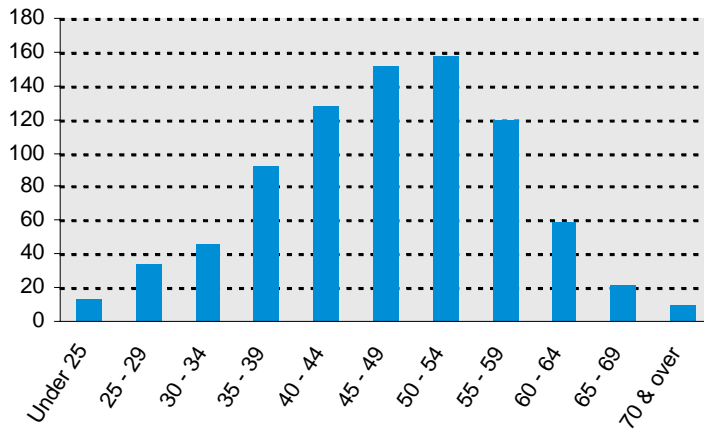
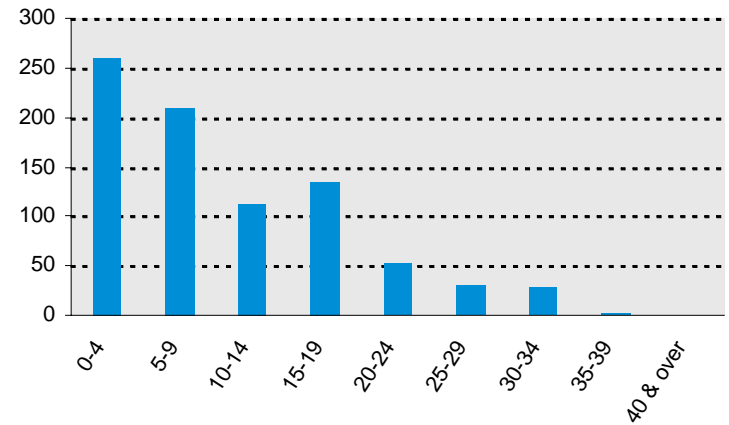


CHART 3
Distribution of Active Participants by Years of Service as of December 31, 2005



SECTION 2: Valuation Results for the City of Salem Contributory Retirement System

Retired Participants and Beneficiaries

As of December 31, 2005, 614 retired participants beneficiaries were receiving total monthly benefits of \$883,196 excluding COLAs reimbursed by the Commonwealth. For comparison, in the previous valuation, there were 618 retired participants and beneficiaries receiving monthly benefits of \$868,391.

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, 2005

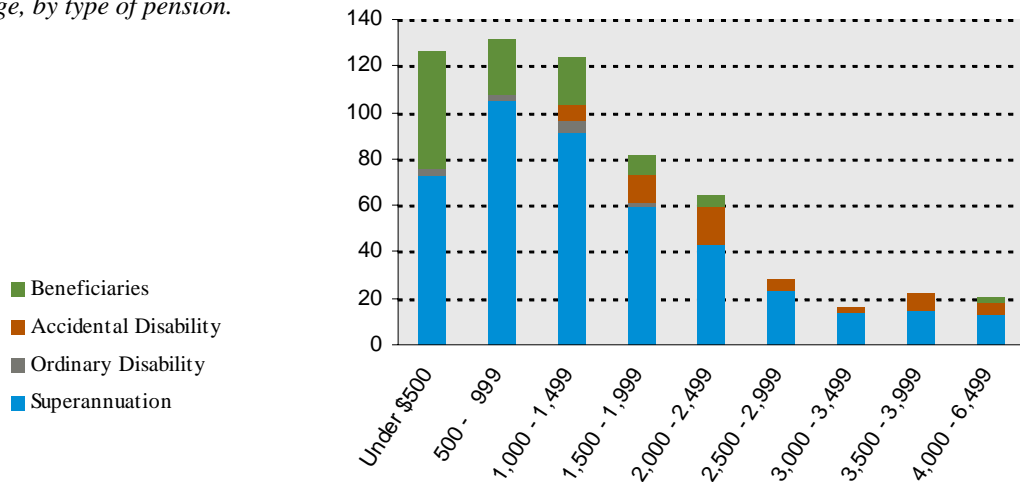
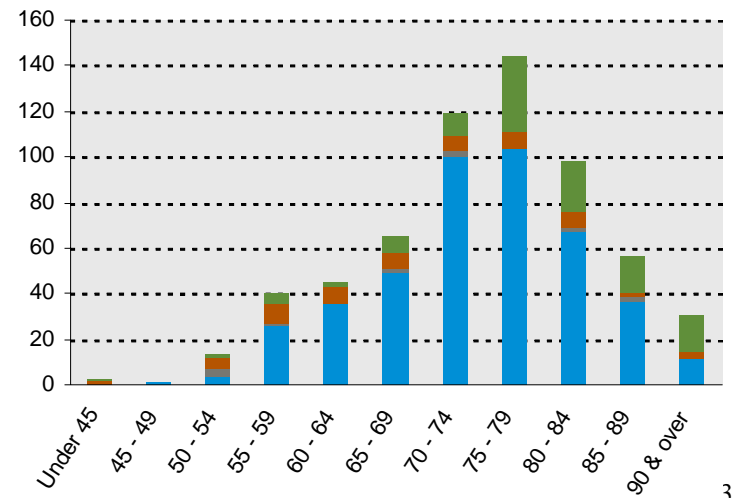


CHART 5
Distribution of Retired Participants and Beneficiaries by Type and by Age as of December 31, 2005



SECTION 2: Valuation Results for the City of Salem Contributory Retirement System

B. FINANCIAL INFORMATION

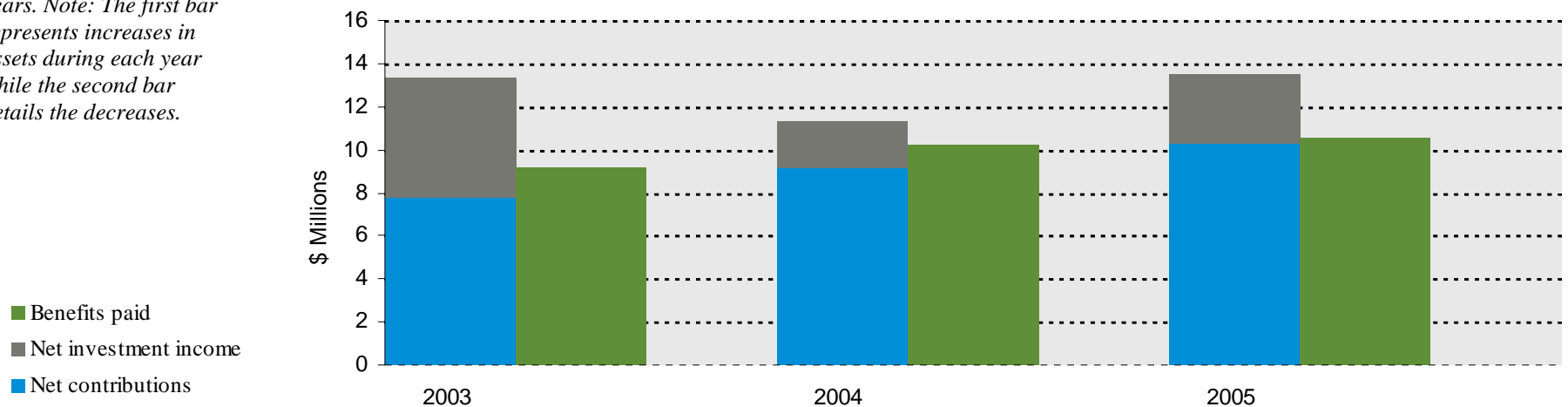
Retirement plan funding anticipates that, over the long term, both net contributions (less administrative expenses) and net investment earnings (less investment fees) will be needed to cover benefit payments.

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 three 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, 2003 – 2005



SECTION 2: Valuation Results for the City of Salem Contributory 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 for Year Ended December 31, 2005

1. Market value of assets			\$82,180,973
2. Calculation of unrecognized return*	Original	Unrecognized	
	<u>Amount</u>	<u>Amount</u>	
(a) Year ended December 31, 2005	-\$3,248,331	-\$2,598,665	
(b) Year ended December 31, 2004	454,552	272,731	
(c) Year ended December 31, 2003	5,667,045	2,266,818	
(d) Year ended December 31, 2002	-12,779,777	-2,555,955	
(e) Year ended December 31, 2001	-8,641,236	0	
(f) Total unrecognized return			-2,615,071
3. Preliminary actuarial value: (1) - (2f)			84,796,044
4. Adjustment to be within 20% corridor			0
5. Final actuarial value of assets: (3) + (4)			<u>\$84,796,044</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)			103.2%

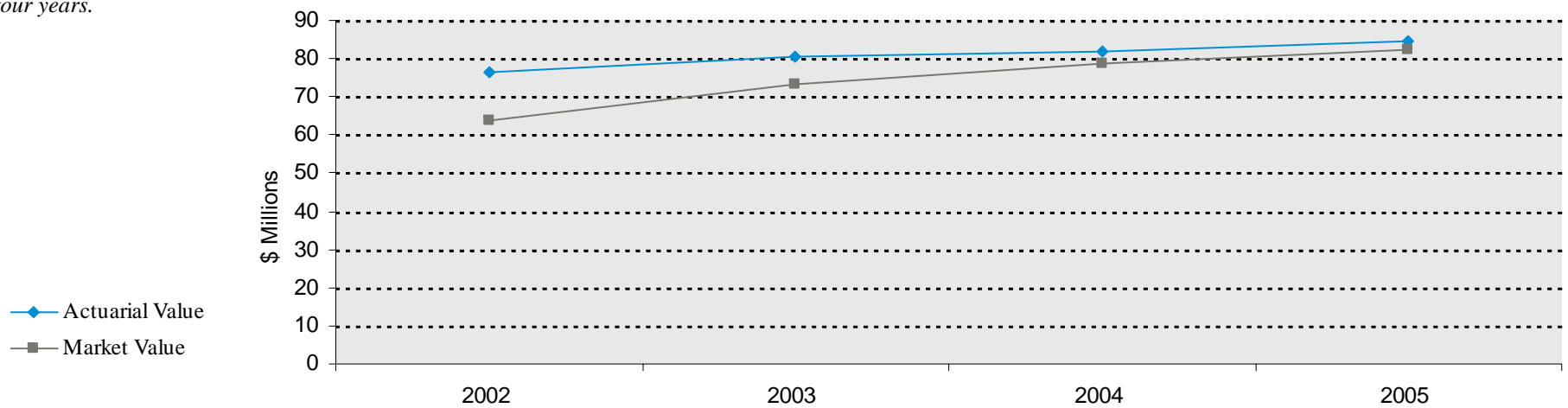
* Unrecognized return is the difference between the total return and the expected return on a market value basis and is recognized over a five-year period.

SECTION 2: Valuation Results for the City of Salem Contributory Retirement System

Both the actuarial value and market value of assets are representations of the Salem 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 Salem 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 four years.

CHART 8
Actuarial Value of Assets vs. Market Value of Assets as of December 31, 2002 – 2005



SECTION 2: Valuation Results for the City of Salem Contributory 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 total experience loss for the year ended December 31, 2005 is \$1,546,825. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past year.

CHART 9
Actuarial Experience for Year Ended December 31, 2005

1. Net (loss) from investments*	-\$3,709,548
2. Net (loss) from administrative expenses	-32,261
3. Net gain from other experience**	<u>2,194,984</u>
4. Net experience (loss): (1) + (2) + (3)	-\$1,546,825

* Details in Chart 10

** Details in Chart 13

SECTION 2: Valuation Results for the City of Salem Contributory 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 Salem Retirement System’s investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets for 2005 was 8.50%. The actual rate of return on an actuarial basis for the 2005 plan year was 3.96%.

Since the actual return for the year was less than the assumed return, the Salem Retirement System experienced an actuarial loss during the year ended December 31, 2005 with regard to its investments.

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

CHART 10
Actuarial Value Investment Experience for Year Ended December 31, 2005

1. Actual return	\$3,233,423
2. Average value of assets	81,681,999
3. Actual rate of return: (1) ÷ (2)	3.96%
4. Assumed rate of return	8.50%
5. Expected return: (2) x (4)	\$6,942,971
6. Actuarial gain/(loss): (1) – (5)	<u>-\$3,709,548</u>

SECTION 2: Valuation Results for the City of Salem Contributory 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 three years, including an average return over that period.

Based upon this experience and future expectations, we have changed the assumed rate of return to 8.25%.

CHART 11

Investment Return – Actuarial Value vs. Market Value: 2003 - 2005

Year Ended December 31	Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent
2003	\$5,563,552	7.34%	\$10,814,423	17.16%
2004	2,177,898	2.72	6,590,555	9.07
2005	<u>3,233,423</u>	3.96	<u>3,694,639</u>	4.70
Total	\$10,974,873		\$21,099,617	
	Three-year average return	4.62%		9.85%

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

SECTION 2: Valuation Results for the City of Salem Contributory 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.

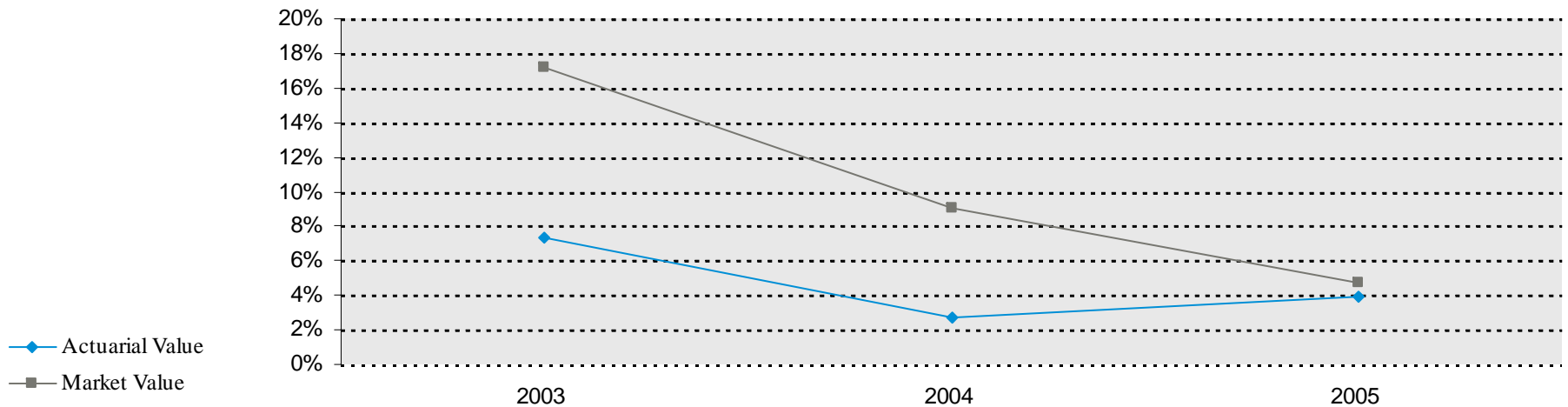
Administrative Expenses

Administrative expenses for the year ended December 31, 2005 totaled \$407,230 compared to the assumption of \$360,000, payable at the beginning of the year. This resulted in a loss of \$32,261 for the year including an adjustment for interest. We have maintained the assumption of \$360,000 for the current year.

This chart illustrates how this leveling effect has actually worked over the years 2003 - 2005.

CHART 12

Market and Actuarial Rates of Return for Years Ended December 31, 2003 - 2005



SECTION 2: Valuation Results for the City of Salem Contributory 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 gain from this other experience for the year ended December 31, 2005 amounted to \$2,194,984 which is 1.3% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the Salem for the year ended December 31, 2005 is shown in the chart below.

With this valuation we recommend the following assumption changes:

- The investment return assumption was lowered from 8.50% to 8.25%.
- A liability for a deferred retirement allowance has been calculated for inactive vested members with a reported final average salary.
- We have assumed that 20% of Group 1 members who retire on accidental disability and 60% of Group 4 members who retire on accidental disability will die from the same cause as the disability.
- We have assumed that 55% of Group 1 deaths and 90% of Group 4 deaths are accidental.
- In 2004, the Public Employee Retirement Administration Commission approved a new mortality table and interest rate to be used in the calculation of the optional form of payment factors. This valuation reflects the change to the new factors.

Changing these assumptions resulted in a net increase in the unfunded liability of \$5,660,446 and an increase in the employer normal cost of \$249,136.

The chart shows elements of the experience gain/(loss) for the most recent year.

CHART 13
Experience Due to Changes in Demographics for Year Ended December 31, 2005

1. Estimated impact of overstatement of total credited service in prior valuation	\$4,000,000
2. Miscellaneous loss	<u>-1,805,016</u>
3. Total experience gain	\$2,194,984

SECTION 2: Valuation Results for the City of Salem Contributory 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 preliminary recommended contribution is based on a 2-year level dollar amortization of the 1992 ERI and a 19-year increasing amortization (4.0% per year) of the remaining unfunded actuarial accrued liability. The current funding schedule fully funds the unfunded liability by June

30, 2025. The prior funding schedule fully funded the unfunded liability one year earlier by June 30, 2024.

Because the fiscal 2007 appropriation has already been budgeted at \$8,431,371, the results of this valuation will first be reflected in the fiscal 2008 appropriation of \$9,202,432. Exhibit G in Section 3 shows the recommended contribution through 2028 based on this funding schedule.

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

CHART 14
Recommended Contribution

	Year Beginning January 1			
	2006		2005	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$4,853,311	14.79%	\$4,285,698	13.68%
2. Administrative expenses	360,000	1.10%	360,000	1.15%
3. Expected employee contributions	<u>-2,882,097</u>	<u>-8.78%</u>	<u>-2,555,236</u>	<u>-8.16%</u>
4. Employer normal cost: (1) + (2) + (3)	\$2,331,214	7.10%	\$2,090,462	6.67%
5. Actuarial accrued liability	166,958,606		156,479,479	
6. Actuarial value of assets	<u>84,796,044</u>		<u>81,801,377</u>	
7. Unfunded actuarial accrued liability: (5) - (6)	\$82,162,562		\$74,678,102	
8. Employer normal cost projected to July 1, 2006 and 2005, adjusted for timing	2,393,905	7.13%	2,177,495	6.08%
9. Projected unfunded actuarial accrued liability	85,484,608		77,787,200	
10. Payment on projected unfunded actuarial accrued liability, adjusted for timing	6,417,550	19.13%	5,932,792	18.53%
11. Preliminary recommended contribution: (8) + (10), adjusted for timing	\$8,811,445	26.26%	\$8,110,287	25.32%
12. Budgeted appropriation, adjusted for timing	<u>\$8,431,371</u>	25.13%	<u>\$8,110,287</u>	25.32%
13. Projected payroll	\$33,554,560		\$32,025,208	

Notes: Amortization payments increase at 4.0% per year.
Recommended contributions and budgeted appropriation include adjustment for timing.

SECTION 2: Valuation Results for the City of Salem Contributory Retirement System

The recommended contribution is based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

SECTION 2: Valuation Results for the City of Salem Contributory Retirement System

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 15 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the

actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

Although GASB requires that the actuarial value of assets be used to determine the funded ratio, Chart 16 shows the funded ratio calculated using both the actuarial value of assets and the market value of assets.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

These graphs show key GASB factors.

CHART 15
Required Versus Actual Contributions

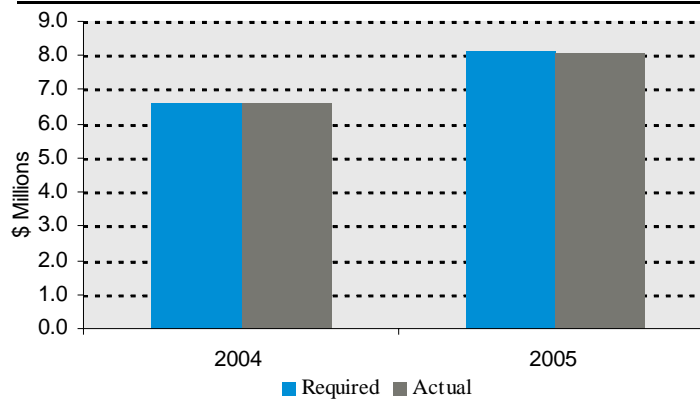
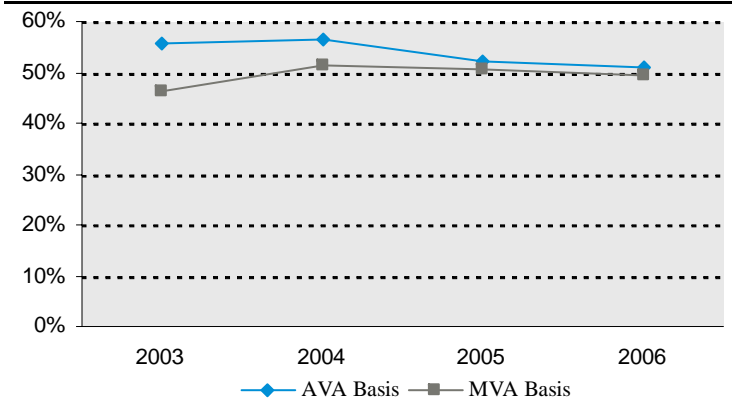


CHART 16
Funded Ratio



SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT A

Table of Plan Coverage

Category	Year Ended December 31		Change From Prior Year
	2005	2004	
Active participants in valuation:			
Number	831	840	-1.1%
Average age	47.8	N/A	N/A
Average service	10.7	N/A	N/A
Total payroll	\$31,143,877	\$29,842,680	4.4%
Average payroll	37,478	35,527	5.5%
Account balances	25,866,523	N/A	N/A
Inactive participants entitled to a return of their contributions	149	146	N/A
Inactive participants with a vested right to a deferred or immediate benefit	21	N/A	N/A
Retired participants:			
Number in pay status	436	441	-1.1%
Average age	72.4	73.7	N/A
Average monthly benefit	\$1,457	\$1,428	2.0%
Disabled participants:			
Number in pay status	66	69	-4.3%
Average age	67.8	68.3	N/A
Average monthly benefit	\$2,244	\$2,149	4.4%
Beneficiaries in pay status	112	108	3.7%

Note: Calendar year 2005 payroll was increased by 4.5% for firefighters to reflect unsettled bargaining agreements.

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT B

**Participants in Active Service as of December 31, 2005
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	13	13	--	--	--	--	--	--	--	--
	\$18,272	\$18,272	--	--	--	--	--	--	--	--
25 - 29	34	25	9	--	--	--	--	--	--	--
	\$29,235	\$26,433	\$37,018	--	--	--	--	--	--	--
30 - 34	46	27	13	6	--	--	--	--	--	--
	\$35,523	\$30,201	\$43,664	\$41,836	--	--	--	--	--	--
35 - 39	92	37	27	14	14	--	--	--	--	--
	\$39,844	\$26,203	\$43,800	\$52,078	\$56,032	--	--	--	--	--
40 - 44	128	35	27	13	43	10	--	--	--	--
	\$43,213	\$20,244	\$39,390	\$51,306	\$59,254	\$54,425	--	--	--	--
45 - 49	151	41	41	23	27	14	4	1	--	--
	\$37,854	\$22,554	\$29,517	\$40,302	\$55,643	\$65,769	\$45,469	\$49,059	--	--
50 - 54	157	42	46	23	16	9	13	8	--	--
	\$36,369	\$22,749	\$32,089	\$28,188	\$45,478	\$55,325	\$71,838	\$58,819	--	--
55 - 59	120	26	26	18	21	9	6	14	--	--
	\$38,854	\$29,396	\$33,502	\$40,012	\$31,065	\$40,998	\$56,294	\$67,703	--	--
60 - 64	59	6	12	9	12	7	7	4	2	--
	\$38,624	\$22,491	\$34,572	\$36,552	\$26,595	\$42,199	\$60,310	\$53,184	\$75,312	--
65 - 69	21	5	8	3	2	2	1	--	--	--
	\$26,682	\$25,567	\$23,036	\$30,310	\$37,791	\$23,914	\$33,864	--	--	--
70 & over	10	2	1	4	--	1	--	1	--	1
	\$15,393	\$13,032	\$12,061	\$19,592	--	\$9,543	--	\$27,146	--	\$750
Total	831	259	210	113	135	52	31	28	2	1
	\$37,478	\$24,421	\$34,836	\$39,299	\$48,959	\$51,629	\$61,599	\$60,977	\$75,312	\$750

Note: Calendar year 2005 payroll was increased by 4.5% for firefighters to reflect unsettled bargaining agreements.

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT C

Summary Statement of Income and Expenses on an Actuarial Value Basis

	Year Ended December 31, 2005	Year Ended December 31, 2004
Contribution income:		
Employer contributions	\$8,022,361	\$6,617,862
Employee contributions	2,647,749	2,860,514
Other contributions	30,195	14,635
Less administrative expenses	<u>-407,230</u>	<u>-313,259</u>
Net contribution income	\$10,293,075	\$9,179,752
Net investment income	<u>3,233,422</u>	<u>2,177,899</u>
Total income available for benefits	\$13,526,497	\$11,357,651
Less benefit payments:		
Pensions	-\$10,093,378	-\$9,777,116
Net 3(8)(c) reimbursements	-115,441	-80,830
Refunds, annuities, and Option B refunds	<u>-323,011</u>	<u>-357,339</u>
Net benefit payments	-\$10,531,830	-\$10,215,286
Change in reserve for future benefits	\$2,994,667	\$1,142,365

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT D

Development of the Fund Through December 31, 2005

Year Ended December 31	Employer Contributions	Employee Contributions	Other Contributions	Net Investment Return*	Administrative Expenses	Benefit Payments	Actuarial Value of Assets at End of Year
2003	\$5,655,234	\$2,426,100	\$31,120	\$5,563,552	\$303,972	\$9,151,909	\$80,659,012
2004	6,617,862	2,860,514	14,635	2,177,899	313,259	10,215,286	81,801,377
2005	8,022,361	2,647,749	30,195	3,233,422	407,230	10,531,830	84,796,044

* *Net of investment fees*

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT E

Development of Unfunded Actuarial Accrued Liability for Year Ended December 31, 2005 and (Gain)/Loss

1. Unfunded actuarial accrued liability at beginning of year		\$74,678,102
2. Normal cost at beginning of year		4,645,698
3. Total contributions		-10,700,305
4. Interest		
(a) For whole year on (1) + (2)	\$6,742,523	
(b) For half year on (3)	<u>-410,727</u>	
(c) Total interest		<u>6,331,796</u>
5. Expected unfunded/(overfunded) actuarial accrued liability		\$74,955,291
6. Changes due to:		
(a) Investment loss	\$3,709,548	
(b) Assumption changes	5,660,446	
(c) Miscellaneous gain	<u>-2,162,723</u>	
(d) Total changes		<u>7,207,271</u>
7. Unfunded actuarial accrued liability at end of year		<u>\$82,162,562</u>

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT F

Table of Amortization Bases as of July 1, 2006

Type	Annual Payment	Years Remaining	Outstanding Balance
1992 ERI	\$122,436	2.00	\$235,274
2002 ERI	62,417	19.00	836,278
2003 ERI	160,837	19.00	2,179,767
Remaining unfunded liability	<u>6,081,860</u>	19.00	<u>82,233,289</u>
Total	\$6,417,550		\$85,484,608

Notes: Payments include adjustment for timing.

Amortization payments for 2002 ERI, 2003 ERI and remaining unfunded liability increase at 4.0% per year.

Does not reflect adjustment to set fiscal 2007 appropriation to budgeted amount.

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT G

Funding Schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of 1992 ERI Liability	(4) Amortization of 2002 and 2003 ERI Liability	(5) Amortization of Remaining Liability	(6) Total Plan Cost: (2) + (3) + (4) + (5)	(7) Total Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year
2007	\$2,393,905	\$122,436	\$223,254	\$5,691,776	\$8,431,371	\$85,484,608
2008	2,501,631	122,436	232,185	6,346,180	9,202,432	86,014,609
2009	2,614,204	-	241,472	6,600,027	9,455,703	85,872,387
2010	2,731,843	-	251,131	6,864,028	9,847,002	85,566,579
2011	2,854,775	-	261,176	7,138,590	10,254,541	84,939,931
2012	2,983,239	-	271,623	7,424,133	10,678,995	83,954,149
2013	3,117,484	-	282,488	7,721,099	11,121,071	82,567,306
2014	3,257,772	-	293,788	8,029,943	11,581,503	80,733,526
2015	3,404,373	-	305,539	8,351,140	12,061,052	78,402,635
2016	3,557,570	-	317,761	8,685,186	12,560,517	75,519,790
2017	3,717,661	-	330,471	9,032,593	13,080,725	72,025,069
2018	3,884,956	-	343,690	9,393,897	13,622,543	67,853,028
2019	4,059,778	-	357,437	9,769,653	14,186,868	62,932,230
2020	4,242,468	-	371,735	10,160,439	14,774,642	57,184,720
2021	4,433,380	-	386,604	10,566,857	15,386,841	50,525,463
2022	4,632,882	-	402,069	10,989,530	16,024,481	42,861,736
2023	4,841,362	-	418,151	11,429,112	16,688,625	34,092,471
2024	5,059,223	-	434,877	11,886,277	17,380,377	24,107,525
2025	5,286,887	-	452,272	12,361,726	18,100,885	12,786,917
2026	5,524,796	-	-	-	5,524,796	-
2027	5,773,412	-	-	-	5,773,412	-
2028	6,033,216	-	-	-	6,033,216	-

*Notes: Amortization payments increase at 4.0% per year.
Includes adjustment for timing.
Assumes contribution of budgeted amount for fiscal 2007.*

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT H

Department Statistics as of January 1, 2006

Category	Water	South Essex Sewerage	Housing	North Shore Regional VOC	City	Total
Active participants in valuation						
Number	15	67	24	52	673	831
Average age	51.9	49.3	47.9	49.2	47.5	47.8
Average service	16.7	12.7	9.6	5.5	10.8	10.7
Total payroll	\$716,661	\$3,117,827	\$996,521	\$1,369,037	\$24,943,831	\$31,143,877
Average payroll	47,777	46,535	41,522	26,328	37,064	37,478
Inactive participants entitled to a return of their employee contributions						
	0	4	5	14	126	149
Inactive participants with a vested right to a deferred or immediate benefit						
	0	2	2	1	16	21
Retired participants and beneficiaries in pay status						
Retired participants	10	19	12	7	388	436
Disabled participants	1	2	2	0	61	66
Beneficiaries	1	5	3	1	102	112
Total number in pay status	12	26	17	8	551	614
Total monthly benefits	\$15,018	\$45,152	\$23,497	\$5,959	\$793,570	\$883,196
Average monthly benefit	1,252	1,737	1,382	745	1,440	1,438

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

**EXHIBIT I
Department Results**

Category	Water	South Essex Sewerage	Housing	North Shore Regional VOC	City	Salem Retirement Board	Total
1. Total normal cost	\$78,575	\$403,385	\$139,163	\$216,736	\$3,994,333	\$21,119	\$4,853,311
2. Administrative expenses	5,828	29,922	10,323	16,077	296,283	1,567	360,000
3. Expected employee contributions	<u>-60,370</u>	<u>-293,825</u>	<u>-95,011</u>	<u>-122,729</u>	<u>-2,294,522</u>	<u>-15,640</u>	<u>-2,882,097</u>
4. Employer normal cost: (1) + (2) + (3)	\$24,033	\$139,482	\$54,475	\$110,084	\$1,996,094	\$7,046	\$2,331,214
5. Employer normal cost as a percent of payroll	3.19%	4.24%	5.18%	7.64%	7.64%	4.32%	7.10%
6. Actuarial accrued liability	\$3,955,878	\$12,228,527	\$4,417,980	\$2,547,273	\$143,156,923	\$652,025	\$166,958,606
7. Actuarial value of assets	<u>2,000,178</u>	<u>6,741,894</u>	<u>2,130,070</u>	<u>1,259,229</u>	<u>72,330,090</u>	<u>334,583</u>	<u>84,796,044</u>
8. Unfunded actuarial accrued liability: (6) – (7)	\$1,955,700	\$5,486,633	\$2,287,910	\$1,288,044	\$70,826,833	\$317,442	\$82,162,562
9. Projected payroll	753,655	3,286,735	1,051,330	1,440,262	26,129,028	163,134	32,824,144
10. Employer normal cost projected to July 1, 2006	24,568	142,586	55,687	112,534	2,040,511	7,203	2,383,089
11. 1992 ERI payments	3,145	17,045	0	0	102,107	0	122,297
12. 2002 ERI payments	0	36,268	20,467	4,889	0	0	61,624
13. 2003 ERI payments	4,000	0	0	2,266	154,357	0	160,623
14. Payment on remaining liability	135,728	356,327	144,542	79,479	4,941,906	22,860	5,680,842
15. Budgeted appropriation for fiscal 2007: (10) + (11) + (12) + (13) + (14)	167,441	552,226	220,696	199,168	7,238,881	30,063	8,408,475
16. Payment date	August 1	August 1	August 1	June 30	July 1	July 1	N/A
17. Adjustment for timing	1.006875	1.006875	1.006875	1.08250	1.0	1.0	--
18. Budgeted appropriation for fiscal 2007 adjusted for timing: (15) x (17)	168,592	556,023	222,213	215,599	7,238,881	30,063	8,431,371
19. Reallocation of Retirement Board fiscal 2007 appropriation	626	1,880	756	715	26,086	-30,063	--
20. Fiscal 2007 appropriation with reallocation, adjusted for timing	169,218	557,903	222,969	216,314	7,264,967	--	8,431,371
21. Fiscal 2008 appropriation with reallocation, adjusted for timing	187,065	609,345	243,971	240,362	7,921,689	--	9,202,432

Notes: Administrative expenses allocated in proportion to Total Normal Cost.

Actuarial value of assets allocated in proportion to Actuarial Accrued Liability less present value of future ERI payments and adjusted for additional contributions by South Essex Sewerage.

SECTION 3: Supplemental Information for the City of Salem Contributory Retirement System

EXHIBIT J

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) Turnover 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 is a wide range of 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 3: Supplemental Information for the City of Salem Contributory 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 City of Salem Contributory 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 112 beneficiaries in pay status)	614
2. Participants active during the year ended December 31, 2005 with total accumulated contributions of \$25,866,523 and projected payroll of \$32,824,144	831
3. Inactive participants with a right to a return of their employee contributions as of December 31, 2005	149
4. Inactive participants with a vested right to a deferred or immediate benefit as of December 31, 2005	21

The actuarial factors as of the valuation date are as follows:

1. Normal cost, including administrative expenses	\$5,213,311
2. Expected employer contributions	<u>-2,882,097</u>
3. Employer normal cost: (1) + (2)	\$2,331,214
4. Actuarial accrued liability	166,958,606
Retired participants and beneficiaries	\$87,249,744
Active participants	78,043,840
Inactive participants	1,655,022
5. Actuarial value of assets (\$82,180,973 at market value)	84,796,044
6. Unfunded actuarial accrued liability: (4) - (5)	82,162,562

The actuarial factors projected to July 1, 2006 are as follows:

1. Employer normal cost projected to July 1, 2006, adjusted for timing	\$2,393,905
2. Projected unfunded actuarial accrued liability	85,484,608
3. Payment on projected unfunded actuarial accrued liability, adjusted for timing	6,417,550
4. Preliminary recommended contribution: (1) + (3), adjusted for timing	<u>\$8,811,455</u>
5. Budgeted appropriation, adjusted for timing	\$8,431,371
6. Projected payroll	33,554,560
7. Total recommended contribution as a percentage of projected payroll: (5) ÷ (6)	25.13%

Note: Amortization payments increase at 4.0% per year.

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended December 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2004	\$6,632,497	\$6,632,497	100.00%
2005	8,052,556	8,052,556	100.00%

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c)
01/01/1997	\$51,236,360	\$82,440,774	\$31,204,414	62.15%	\$22,930,939	136.08%
01/01/1999	68,563,143	111,294,953	42,731,810	61.60%	25,411,629	168.16%
01/01/2001	73,727,923	117,334,727	43,606,804	62.84%	29,072,187	149.99%
01/01/2003	76,438,885	137,111,559	60,672,674	55.75%	31,089,195	195.16%
01/01/2004	80,659,012	142,499,185	61,840,173	56.60%	29,355,291	210.66%
01/01/2005	81,801,377	156,479,479	74,678,102	52.28%	31,328,083	238.37%
01/01/2006	84,796,044	166,958,606	82,162,562	50.79%	32,824,144	250.31%

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	January 1, 2006
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar for 1992 ERI and increasing at 4.0% per year for 2002 ERI, 2003 ERI and remaining unfunded liability
Remaining amortization period	2 years remaining as of July 1, 2006 for 1992 ERI and 19 years remaining as of July 1, 2006 for 2002 ERI, 2003 ERI and remaining unfunded liability
Asset valuation method	The difference between the expected return and actual investment return on a market value basis is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.50%
Cost of living adjustments	3.00% of first \$12,000 of retirement income
Plan membership:	
Retired participants and beneficiaries receiving benefits	614
Terminated participants entitled to a return of their employee contributions	149
Terminated participants with a vested right to a deferred or immediate benefit	21
Active participants	<u>831</u>
Total	1,615

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

EXHIBIT V

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

<i>Pre-Retirement:</i>	RP-2000 Employee Mortality Table
<i>Healthy Retiree:</i>	RP-2000 Healthy Annuitant Mortality Table
<i>Disabled Retiree:</i>	RP-2000 Healthy Annuitant Mortality Table set forward 2 years

Termination Rates before Retirement:

Groups 1 and 2 – Rate (%)

Age	Mortality			Disability
	Male	Female		
20	0.03	0.02		0.01
25	0.04	0.02		0.02
30	0.04	0.03		0.03
35	0.08	0.05		0.06
40	0.11	0.07		0.10
45	0.15	0.11		0.15
50	0.21	0.17		0.19
55	0.36	0.27		0.24
60	0.67	0.51		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 City of Salem Contributory Retirement System

Termination Rates before Retirement (continued):

Age	Group 4 – Rate (%)		
	Mortality		Disability
	Male	Female	
20	0.03	0.02	0.10
25	0.04	0.02	0.20
30	0.04	0.03	0.30
35	0.08	0.05	0.30
40	0.11	0.07	0.30
45	0.15	0.11	1.00
50	0.21	0.17	1.25
55	0.36	0.27	1.20
60	0.67	0.51	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.*

Withdrawal Rates:

Years of Service	Rate per year (%)	
	Groups 1 and 2	Years of Service Group 4
0	15.0	0 – 10 1.5
1	12.0	11+ 0.0
2	10.0	
3	9.0	
4	8.0	
5 – 9	7.6	
10 – 14	5.4	
15 – 19	3.3	
20 – 24	2.0	
25 - 29	1.0	
30+	0.0	

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

Retirement Rates:	Rate per year (%)			Group 4
	Age	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	--

Unknown Data for Participants: Same as those exhibited by participants with similar known characteristics. If not specified, participants are assumed to be male.

Age of Spouse: Female (or male) spouses 3 years younger (or older) than their spouses.

Percent Married: 80%

Net Investment Return: 8.25%

Interest on Employee Contributions: 3.5%

Investment Expenses: \$360,000 for calendar 2006

Salary Increases: 5.5%

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

2005 Salary:	Salary reported in the data, except for employees missing salaries, whose salary was estimated from contributions. The salaries of firefighters were increased by 4.5% to reflect unsettled bargaining agreements.
Total Service:	Total creditable service reported in the data.
Actuarial Value of Assets:	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 over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Cost Method:	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.

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

EXHIBIT VII

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.)

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			
Percent	Group 1	Group 2	Group 4
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

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

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

annual rate of regular compensation received during the last three years of creditable service prior to retirement. The \$30,000 cap on salary used in a benefit determination for any employee hired after January 1, 1979 has been removed.

The maximum annual amount of the retirement allowance is 80 percent of the member's final three-year average salary. Any member who is a veteran also receives an additional yearly retirement allowance of fifteen dollars per year of creditable service, not exceeding three hundred dollars. The veteran allowance is paid in addition to the 80 percent maximum.

Employee Contributions

Employees hired before January 1, 1975 contribute 5 percent of their salary; employees hired after December 31, 1974 and before January 1, 1984 contribute 7 percent; employees hired after January 1, 1984 contribute 8 percent; employees hired after July 1, 1996 contribute 9 percent. 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 leave with less than five years of credited service receive no interest on their contributions and employees who leave with five but less than ten years receive one-half the rate of regular interest otherwise payable.

Retirement Benefits (Superannuation)

Members of Group 1, 2 or 4 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members 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).

Ordinary Disability Benefits

A member who is unable to perform his job due to a non-occupational disability will receive a retirement allowance if he 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, based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50

SECTION 4: Reporting Information for the City of Salem Contributory Retirement System

percent of the member's most recent year's pay plus an annuity based on his 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 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.

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 his death, a spouse's benefit will be paid the full amount the employee would have received under Option C (previously, two-thirds of the amount). 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 \$500 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.

"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 or permanent member of a police department 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

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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.

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 his death any of his contributions not expended for annuity payments will be refunded to his beneficiary. Option C allows the member to take a lesser retirement allowance in exchange for providing his survivor with two-thirds of the lesser amount. Option C pensioners will have their 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 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 \$12,000 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.