FY2021 Assessments Explained

Hello All,

Your official assessment letters were mailed in the first week of January 2020. If you'd like to see the chart with each and all of your assessment numbers click this link: http://www.frrsma.com/wp-content/uploads/2019/12/FRRS-FY2021-Appropriation-Calculation-By-Unit.pdf

Here is my explanation for why your assessments change from year-to-year: Assessments in total have largely increased because a number of assumptions were greater or lesser than expected – retirees lived longer than assumed, new members brought with them prior service which they purchased but for which we hadn't gathered matching funding, and there were fewer retirements than assumed (replacement workers pay more in deductions). These assumptions are part of the calculation of future retirement benefits, and assessments are the town's share of that future expense. (Member deductions, and investment earnings are the other funding sources.) The change in these various assumptions increased that future retirement liability by $5.1 million. This year's share is $444,914.

Your specific assessments increase/decrease for the above reason, but also because your salary increases (or decreases) from year-to-year might not be the same as your fellow employer units (towns, schools, agencies), so your share of the assessment will increase if you do more hiring or give bigger raises than your neighbors.

At this link: http://www.frrsma.com/wp-content/uploads/2019/12/FRRS-FY2021-Assessment-Changes-Analysis.pdf is the full chart listing each of you and showing the effect either the salaries change, or the reality of assumptions had on your assessment. By way of explaining, I'm using Mohawk and Orange here as examples.

Orange's salaries (5-year average) went down by 114,624, so if the total assessment was the same as last year Orange's assessment would have dropped -$10,638, but the total assessment is up this coming year by $444,914, so Orange's share of the life expectancy increase is $54,620, netting Orange's assessment next year at $43,982.

Mohawk has a double increase because its salaries went up, and it picks up its share of the changed reality of assumptions increase. ($1,703 + 42,026 = 43,729)

FY2020 (Old Year)			FY2021 (New Year)				Increase/(decrease)					
salaries*	share	Assessment** - (does not include ERIs)	salaries*	share	Assessment** - (does not include ERIs)		salaries	share	Assessment $	%	due to shift in salaries	due to base assessment increase
139,841	0.4454%	31,276	146,428	0.4485%	33,278	Leyden	6,587	0.0031%	2,002	6.40%	218	1,784
1,616,689	5.1490%	357,940	1,663,590	5.0957%	377,155	Mahar Regional School	46,901	-0.0533%	19,215	5.37%	(3,705)	22,920
2,929,753	9.3310%	648,461	3,054,267	9.3555%	692,190	Mohawk Regional School	124,514	0.0245%	43,729	6.74%	1,703	42,026
102,837	0.3275%	22,936	115,943	0.3551%	26,623	Monroe	13,106	0.0276%	3,687	16.08%	1,933	1,754
251,587	0.8013%	55,602	262,697	0.8047%	59,162	New Salem	11,110	0.0034%	3,560	6.40%	236	3,324
641,615	2.0435%	141,786	694,308	2.1267%	157,518	New Salem/Wendell School	52,693	0.0832%	15,732	11.10%	5,773	9,959
828,575	2.6389%	183,487	847,896	2.5972%	192,275	Northfield	19,321	-0.0417%	8,788	4.79%	(2,899)	11,687
4,148,020	13.2110%	918,132	4,262,644	13.0569%	962,114	Orange	114,624	-0.1541%	43,982	4.79%	(10,638)	54,620
39,249	0.1250%	9,035	36,273	0.1111%	8,135	Orange Housing	(2,976)	-0.0139%	(900)	-9.96%	(1,005)	105
31,398,150	100%	6,950,280	32,646,666	100%	7,395,194	totals:						
	Increase in "Amount to be Raised" (as per Funding Schedule):				444,914						0.00	444,914

* These salaries amounts are based on a 5-year average derived from monthly retirement deduction records.
** Assessments do not include office operating expenses. Assessments are based on future retirement benefits of current employees, and are offset by investment balances.

The above should suffice for those that want the easy-to-understand explanation. I like to say, **"Assessments are up because people are living longer."**

And for those of you that enjoy the deep dive . . . read our actuary's presentation from April of 2018 (pages 3 and 12 are interesting), and read our valuation report, most notably pages 12 and 13.
http://www.frrsma.com/wp-content/uploads/2018/11/2b-Franklin-Regional-1-1-2018-Valuation-Results-PPT-V1-use-this-one.pdf
http://www.frrsma.com/wp-content/uploads/2018/08/2018-Valuation-Report-FY2020-and-FY2021-Franklin-Regional-2018-Report-Final-6-20-2018.pdf

On the next page, I'll quickly point out some data from the report:

- You can see our unfunded liability went up by the $5.1 million for the change in mortality tables ($43m + 5m = 48m).
- That $1.8 million is the cost of going from a $15,000 COLA base to $17,000, but please also notice that we had it covered by our Asset gains $4.9m (amongst other things).
- Note that our Actual Rate of Return topped our Assumed rate of return (9.56% versus 7.75%). Let's hope that continues.

Change in Unfunded Liability

During the 2-Year Period 2016 – 2017	
Unfunded Actuarial Accrued Liability (UAL), January 1, 2016	$48.9
Expected UAL, January 1, 2018	47.0
Actual UAL, January 1, 2018	50.8
(Decrease)/Increase during 2016 – 2017	$3.8
Increase due to Demographic Experience	$4.2
Decrease due to Asset Investment Return greater than expected	(.3)
Decrease due to 2% COLA for 2018	(.3)
Increase due to change in retirement rates	.2
Total (Decrease) / Increase during 2016 – 2017	$3.8

Dollars in millions

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Key Findings

- Market Value of Assets (MVA)
  - Returns for 2016 and 2017 exceeded expectations
  - $10m asset gain on MV during 2-year period
- Actuarial Value of Assets (AVA)
  - 7.75% expected
  - 2016 and 2017 gains phased-in at 25% per year
  - Modest asset gain on AVA during 2-year period
- Demographic experience loss of $4.2m
  - Losses
    - new entrants with past service
    - fewer retiree deaths than expected
    - Retirement decrement
  - Gains
    - Salary increases lower than expected
    - Termination, death and disability decrements
- Funded Status changed from 71.4% to
  - 73.2% before assumption changes - increased
  - 73.2% after recommended assumption changes - increased

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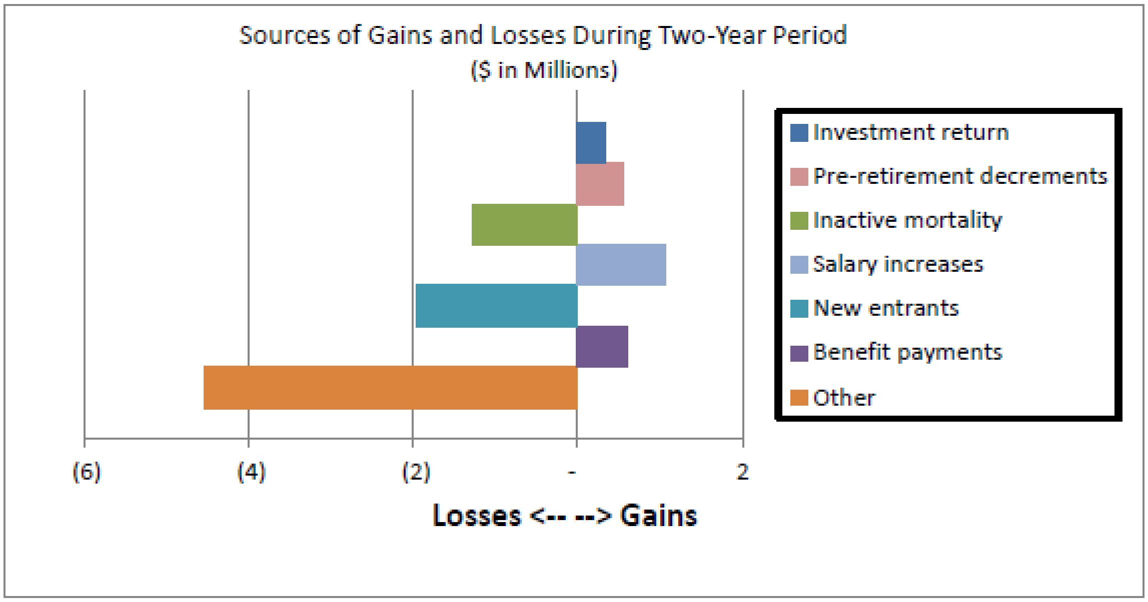
Exhibit 2.6 - Actuarial Experience

Below are the various sources of gains and losses over the 2-year period. The asset gain during the period was $322,283, and the total demographic loss during the period was $5,572,940, which totals to an overall loss of $5,250,657.



Actual Unfunded Actuarial Accrued Liability

a.	Changes due to:	
	i) Asset (gain)/loss	($322,283)
	ii) (Gain)/loss from demographic experience	5,572,940
	iii) (Gain)/loss prior to changes	~~5,250,657~~
	iv) Plan change - 2% COLA for 2018	(293,030)
	v) Assumption change - change in retirement and disability rates	180,697
	vi) Total (gain)/loss (including changes)	5,138,324
b.	Unfunded Actuarial Accrued Liability, end of year	$50,800,813

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Somebody asked for a history of our COLA. You can find it on our website:

http://www.frrsma.com/wp-content/uploads/2019/07/COLA-HISTORY-AT-FRRS-through-July-2019.pdf

I think the COLA report is self-explanatory. The averages are new in the last few years.

Hey, this was enjoyable - thanks for asking.

Dale

Dale Kowacki
Executive Director, Franklin Regional Retirement System
413.774.4837,,,,,4