



City of Torrington

- Municipal Employees' Retirement Fund
- Police and Firemen's Pension Plan

Review of the July 1, 2022 Actuarial Valuations

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Agenda



- Purpose of the Valuation
- Overview of Results
- Assumption Review and Changes
- Executive Summary
- Trends – Funded Ratio and ADEC
- Asset Information
- Looking Ahead

Purpose of the Valuation



The ultimate cost of a pension plan is based primarily on the level of benefits promised by the plan. The fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus:

$$\text{City's Ultimate cost} = \text{Benefits Paid} + \text{Expenses Incurred} - \text{Investment Return} - \text{Employee Contributions}$$

- An Actuarial Valuation utilizes an actuarial cost method to assign a portion of this “ultimate cost” to the budget year. The valuation does not determine the cost of the plan but is a tool used to determine an appropriate level of City contributions.
- Actuarially Determined Employer Contribution (ADEC) developed from the valuation is comprised of two components: amortization of unfunded liability (*20 years for the 2022 valuation, closed period*) & normal cost (assignment of benefits “earned” for the budget year).

Overview of Results



- Funded ratio is 81.5% (City) / 65.4% (Police & Fire), vs. 80.4% (City) / 62.1% (Police & Fire) in prior valuation
- ADEC for FY 2023-24 is \$1.26M (City) / \$4.52M (P&F) / \$5.78M (Total) vs. \$1.32M (City) / \$4.53M (P&F) / \$5.85M (Total) for FY 2022-23
- Investment returns on a market value basis were below the 6.75% assumption over the 2 year period (3.9% average annual return). Smoothed (actuarial) returns were 7.3% on average over the same period.
- Both plans experienced liability losses, driven by salary increases that were higher than assumed (P&F), and fewer retiree deaths than expected (City)
- Assumption updated for mortality projection scale : increased total actuarial liability by less than 0.2%
- Both plans are closed to new hires : 70% of City plan liability is for inactive members / 64% for P&F plan

Assumption Review and Changes



- **Investment return** – Based on the current target asset allocation and our (USI Advisors) capital market assumptions, we believe that a long-term assumption of 6.75% is reasonable. Most of our clients have “paused” lowering this assumption for 2022 and 2023 actuarial valuations.
- *Median* for CT public sector plans is 6.50% (USI/H&H survey of FYE 2022 CAFRs). *Average* is 6.46% for all plans; 6.74% for plans with \$50+ million in assets. NASRA survey (November 2023) shows average assumption of 6.91% (median 7.00%) for large public sector funds.
- **Mortality projection scale** – There was not an annual mortality projection scale update published in 2022 or 2023 by the Society of Actuaries. This valuation reflects the most recent mortality projection scale (MP-2021) published by the Society of Actuaries. Mortality projection scale is used to estimate how life expectancies are expected to change in the future. This is used in conjunction with the underlying mortality table, which reflects estimated life expectancies today. *Impact: increased actuarial accrued liability by less than 0.2%.*

Executive Summary – City plan



| | July 1, 2022 | July 1, 2020 |
|--|--------------|--------------|
| Number of members | | |
| Active employees | 58 | 73 |
| Terminated vested members | 10 | 11 |
| Retired, disabled and beneficiaries | 150 | 141 |
| Total | 218 | 225 |
| Covered employee payroll | 4,070,560 | 4,846,634 |
| Average plan salary | 70,182 | 66,392 |
| Actuarial present value of future benefits | 58,188,036 | 56,872,757 |
| Actuarial accrued liability | 54,943,516 | 52,761,560 |
| Plan assets | | |
| Market value of assets | 40,828,824 | 41,199,058 |
| Actuarial value of assets | 44,789,301 | 42,408,468 |
| Unfunded accrued liability | 10,154,215 | 10,353,092 |
| Funded ratio | 81.5% | 80.4% |
| Actuarially determined employer contribution (ADEC) | | |
| Fiscal year ending | 2024 | 2022 |
| ADEC | 1,261,262 | 1,318,830 |
| Fiscal year ending | 2025 | 2023 |
| ADEC | 1,261,262 | 1,318,830 |

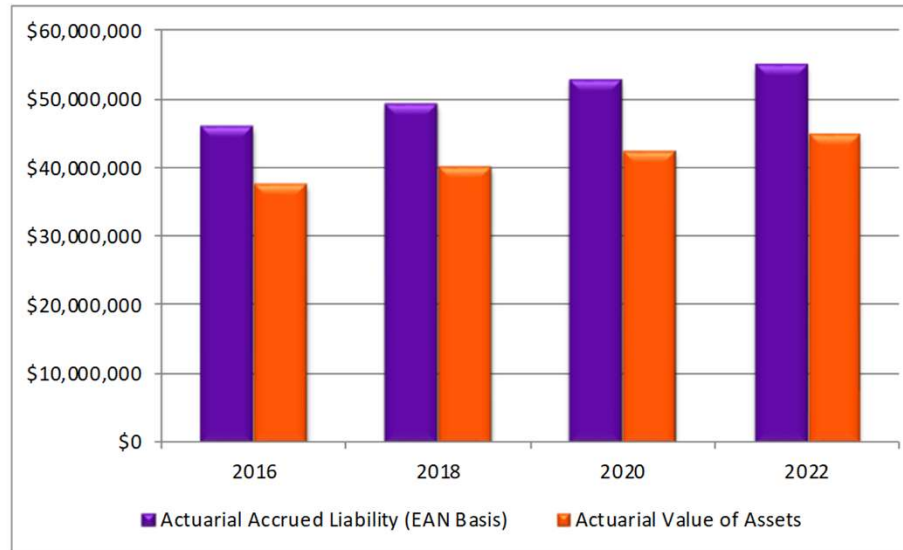
Executive Summary – Police & Fire plan



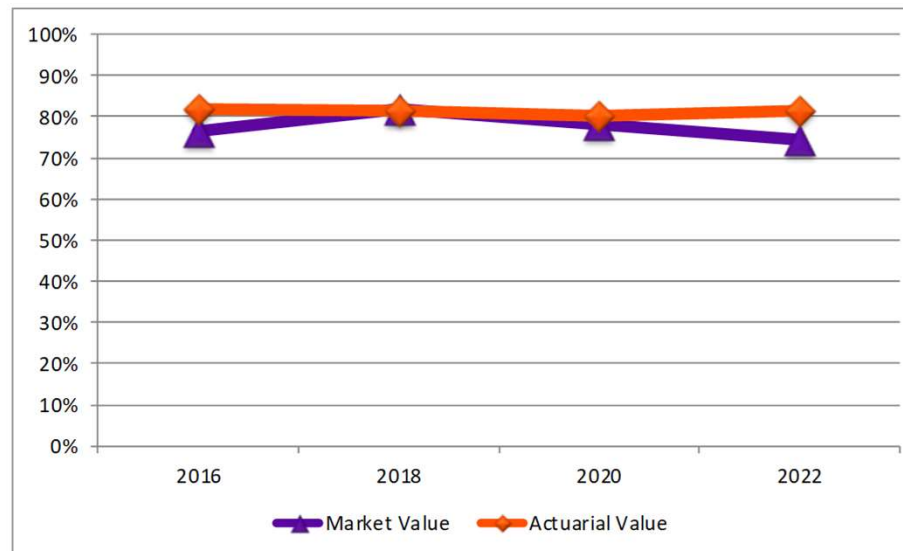
| | July 1, 2022 | July 1, 2020 |
|--|--------------|--------------|
| Number of members | | |
| Active employees | 75 | 86 |
| Terminated vested members | 5 | 6 |
| Retired, disabled and beneficiaries | 169 | 168 |
| Total | 249 | 260 |
| Covered employee payroll | 8,090,549 | 8,304,057 |
| Average plan salary | 107,874 | 96,559 |
| Actuarial present value of future benefits | 123,584,557 | 119,769,583 |
| Actuarial accrued liability | 111,942,422 | 105,984,390 |
| Plan assets | | |
| Market value of assets | 66,521,160 | 63,832,734 |
| Actuarial value of assets | 73,210,724 | 65,854,907 |
| Unfunded accrued liability | 38,731,698 | 40,129,483 |
| Funded ratio | 65.4% | 62.1% |
| Actuarially determined employer contribution (ADEC) | | |
| Fiscal year ending | 2024 | 2022 |
| ADEC | 4,515,684 | 4,534,125 |
| Fiscal year ending | 2025 | 2023 |
| ADEC | 4,515,684 | 4,534,125 |

Trends – Funded Ratio (City plan)

Actuarial Accrued Liability vs. Actuarial Value of Assets

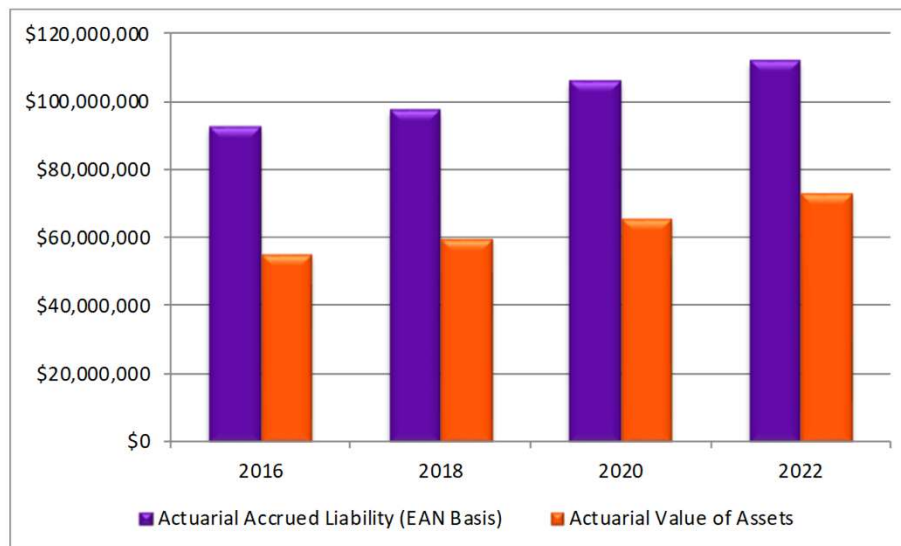


Funded Ratio

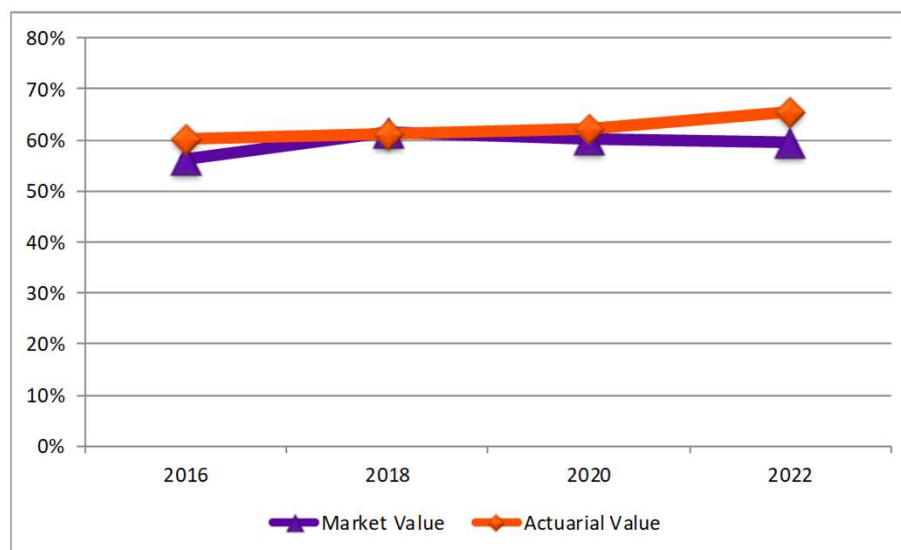


Trends – Funded Ratio (Police & Fire plan)

Actuarial Accrued Liability vs. Actuarial Value of Assets

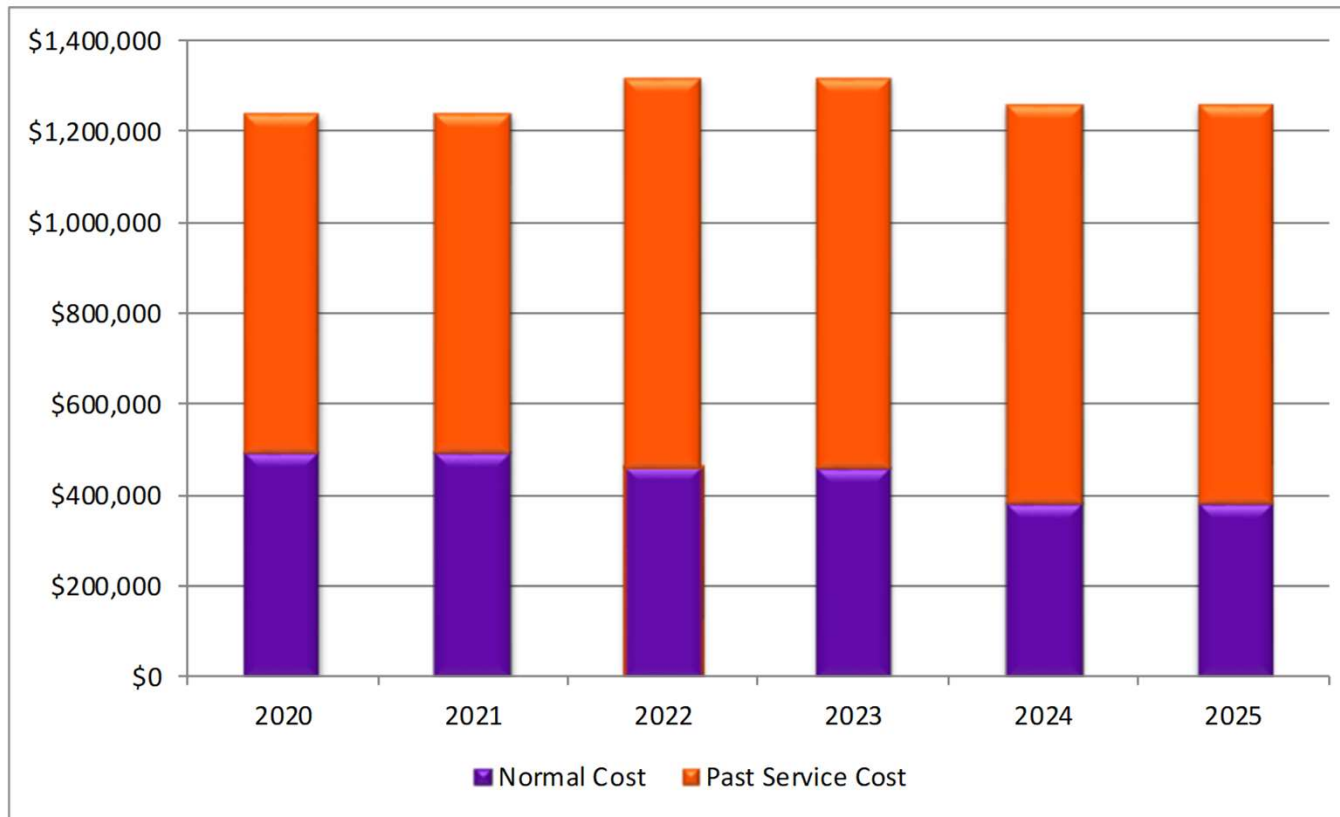


Funded Ratio



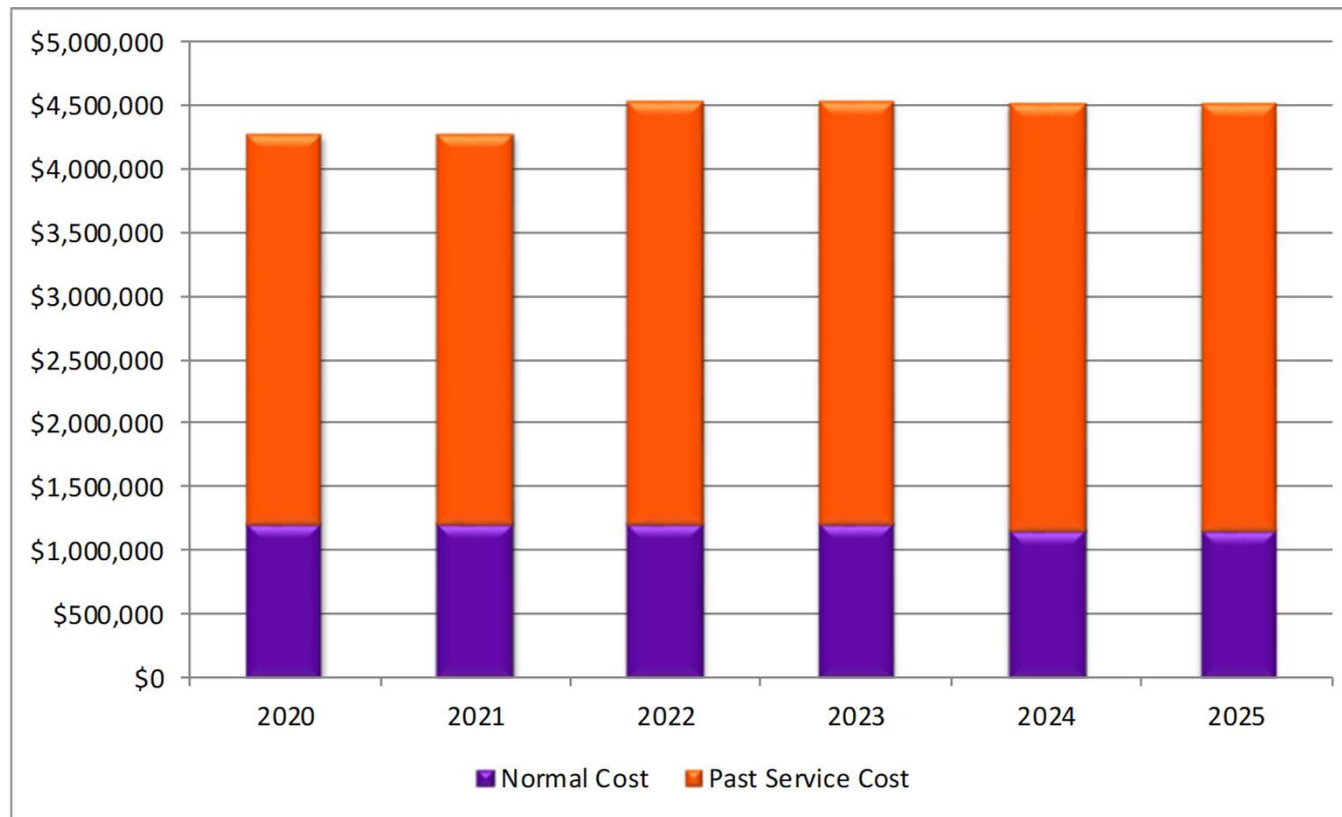
Trends – ADEC (City plan)

Actuarially Determined Employer Contribution



Trends – ADEC (Police & Fire plan)

Actuarially Determined Employer Contribution



Asset Information – FYE 2022 (City plan)



| Summary of Fund Activity | | |
|--|--------------|-----------------|
| | Market Value | Actuarial Value |
| 1. Beginning value of assets July 1, 2021 | | |
| Trust assets | \$48,991,606 | \$44,658,365 |
| 2. Contributions | | |
| City contributions during year | 1,227,984 | 1,227,984 |
| Employee contributions during year | 225,897 | 225,897 |
| Total for plan year | 1,453,881 | 1,453,881 |
| 3. Disbursements | | |
| Benefit payments during year | 3,501,771 | 3,501,771 |
| Administrative expenses during year | 37,538 | 37,538 |
| Total for plan year | 3,539,309 | 3,539,309 |
| 4. Net investment return | | |
| Interest and dividends | 0 | N/A |
| Realized and unrealized gain / (loss) | (6,077,354) | N/A |
| Expected return | N/A | 3,260,191 |
| Recognized gain / (loss) | N/A | (1,043,827) |
| Required adjustment due to corridor | N/A | 0 |
| Reversal of prior year required adjustment | N/A | 0 |
| Investment-related expenses | 0 | N/A |
| Total for plan year | (6,077,354) | 2,216,364 |
| 5. Ending value of assets July 1, 2022 | | |
| Trust assets: (1) + (2) - (3) + (4) | 40,828,824 | 44,789,301 |
| 6. Approximate rate of return | -12.6% | 5.0% |

Asset Information – FYE 2021 (City plan)

| Summary of Fund Activity | | |
|--|--------------|-----------------|
| | Market Value | Actuarial Value |
| 1. Beginning value of assets July 1, 2020 | | |
| Trust assets | \$41,199,058 | \$42,408,468 |
| 2. Contributions | | |
| City contributions during year | 1,253,562 | 1,253,562 |
| Employee contributions during year | 246,467 | 246,467 |
| Total for plan year | 1,500,029 | 1,500,029 |
| 3. Disbursements | | |
| Benefit payments during year | 3,310,707 | 3,310,707 |
| Administrative expenses during year | 45,323 | 45,323 |
| Total for plan year | 3,356,030 | 3,356,030 |
| 4. Net investment return | | |
| Interest and dividends | 51 | N/A |
| Realized and unrealized gain / (loss) | 9,648,498 | N/A |
| Expected return | N/A | 2,741,952 |
| Recognized gain / (loss) | N/A | 1,363,946 |
| Required adjustment due to corridor | N/A | 0 |
| Reversal of prior year required adjustment | N/A | 0 |
| Investment-related expenses | 0 | N/A |
| Total for plan year | 9,648,549 | 4,105,898 |
| 5. Ending value of assets July 1, 2021 | | |
| Trust assets: (1) + (2) - (3) + (4) | 48,991,606 | 44,658,365 |
| 6. Approximate rate of return | 23.7% | 9.8% |

Asset Information – FYE 2022 (P&F plan)



| Summary of Fund Activity | | |
|--|--------------|-----------------|
| | Market Value | Actuarial Value |
| 1. Beginning value of assets July 1, 2021 | | |
| Trust assets | \$78,000,513 | \$71,166,974 |
| 2. Contributions | | |
| City contributions during year | 4,292,329 | 4,292,329 |
| Employee contributions during year | 627,937 | 627,937 |
| Total for plan year | 4,920,266 | 4,920,266 |
| 3. Disbursements | | |
| Benefit payments during year | 6,315,773 | 6,315,773 |
| Administrative expenses during year | 61,403 | 61,403 |
| Total for plan year | 6,377,176 | 6,377,176 |
| 4. Net investment return | | |
| Interest and dividends | 0 | N/A |
| Realized and unrealized gain / (loss) | (10,022,443) | N/A |
| Expected return | N/A | 5,324,213 |
| Recognized gain / (loss) | N/A | (1,823,553) |
| Required adjustment due to corridor | N/A | 0 |
| Reversal of prior year required adjustment | N/A | 0 |
| Investment-related expenses | 0 | N/A |
| Total for plan year | (10,022,443) | 3,500,660 |
| 5. Ending value of assets July 1, 2022 | | |
| Trust assets: (1) + (2) - (3) + (4) | 66,521,160 | 73,210,724 |
| 6. Approximate rate of return | -12.7% | 4.9% |

Asset Information – FYE 2021 (P&F plan)



| Summary of Fund Activity | | |
|--|--------------|-----------------|
| | Market Value | Actuarial Value |
| 1. Beginning value of assets July 1, 2020 | | |
| Trust assets | \$63,832,734 | \$65,854,907 |
| 2. Contributions | | |
| City contributions during year | 4,291,829 | 4,291,829 |
| Employee contributions during year | 680,921 | 680,921 |
| Total for plan year | 4,972,750 | 4,972,750 |
| 3. Disbursements | | |
| Benefit payments during year | 6,086,287 | 6,086,287 |
| Administrative expenses during year | 64,465 | 64,465 |
| Total for plan year | 6,150,752 | 6,150,752 |
| 4. Net investment return | | |
| Interest and dividends | 180 | N/A |
| Realized and unrealized gain / (loss) | 15,345,601 | N/A |
| Expected return | N/A | 4,399,953 |
| Recognized gain / (loss) | N/A | 2,090,116 |
| Required adjustment due to corridor | N/A | 0 |
| Reversal of prior year required adjustment | N/A | 0 |
| Investment-related expenses | 0 | N/A |
| Total for plan year | 15,345,781 | 6,490,069 |
| 5. Ending value of assets July 1, 2021 | | |
| Trust assets: (1) + (2) - (3) + (4) | 78,000,513 | 71,166,974 |
| 6. Approximate rate of return | 23.5% | 9.7% |

Looking Ahead



- Continue to monitor investment return assumption, based on emerging capital market assumptions, long-term inflation expectations, and plan's liquidity needs