

City of Worcester Retirement System

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

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May 1, 2006

*City of Worcester Retirement System
City Hall, Room 103, 455 Main Street
Worcester, MA 01608*

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 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 Worcester 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*

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SECTION 1: Valuation Summary for the City of Worcester Retirement Board

Purpose

This report has been prepared by The Segal Company to present a valuation of the City of Worcester 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 December 31, 2005;
- 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.
- The market value rate of return for 2005 was 9.29% resulting in an investment gain on a market value basis of \$4,698,351.
- During the year ended December 31, 2005, there was an experience gain of \$19,610,740 due to salary increases less than expected and the market gain noted above. The salary gain was measured after 2005 salaries were decreased by 2.25% for police officers to reflect retroactive salary payments made in 2005 and increased by 4% for unions identified by the City to reflect unsettled bargaining contracts.
- This valuation reflects the following:
 - The assumed rate of investment return has been lowered from 8.50% to 8.25%.

SECTION 1: Valuation Summary for the City of Worcester Retirement Board

- Last year, the actuarial value of assets was set equal to market value. The Board has elected to continue to use the market value of assets to determine the unfunded actuarial accrued liability and the funding schedule.
 - 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.
 - This valuation reflects the additional liability due to the increased benefits for veterans who retire due to an accidental disability. This additional liability increased the January 1, 2006 accrued liability by \$370,567. The impact on the fiscal 2007 appropriation is \$29,625.
- The City made an additional contribution of \$1,175,586 on July 1, 2005 which was applied to the 2003 ERI liability.
 - The unfunded liability has decreased from \$165,848,695 as of January 1, 2005 to \$162,940,960 as of January 1, 2006, due to the net effect of the experience gain, changes in assumptions, change in veterans' allowances, and additional contributions.
 - We have determined the fiscal 2007 appropriation of \$23,316,836 by maintaining the 12-year increasing (1.5% per year) amortization payment on the 2002 ERI, shortening the amortization payment on the 2003 ERI from 13 years to 6 years, maintaining the 8-year level dollar amortization of the Section 90 ACD liability, and maintaining the 17-year increasing (4.5% per year) amortization of the remaining unfunded accrued liability as of July 1, 2006. The fiscal 2006 appropriation was \$22,228,892.

SECTION 1: Valuation Summary for the City of Worcester Retirement Board

Summary of Key Valuation Results

	2006	2005
Contributions:		
Recommended for following fiscal year	\$23,316,836	\$22,228,892
Funding elements for plan year beginning January 1:		
Normal cost, including administrative expenses	\$21,159,434	\$20,362,054
Market value of assets	644,016,504	606,099,616
Actuarial value of assets	644,016,504	606,099,616
Actuarial accrued liability	806,957,464	771,948,311
Unfunded/(overfunded) actuarial accrued liability	162,940,960	165,848,695
GASB 25/27:		
Annual required contributions	\$23,316,836	\$22,228,892
Actual contributions	--	23,579,478
Percentage contributed	--	106.08%
Funded ratio	79.81%	78.52%
Demographic data for plan year beginning January 1:		
Number of retired participants and beneficiaries	2,919	2,964
Number of inactive participants entitled to a return of their employee contributions	965	1,017
Number of inactive participants with a vested right to a deferred or immediate benefit	42	N/A
Number of active participants	3,430	3,498
Total payroll*	\$139,009,399	\$140,287,074
Average payroll*	40,528	40,105

* Calendar year 2005 payroll figures were reduced 2.25% for police officers to reflect retroactive salary payments made in 2005 and increased by 4.0% for unions identified by the City to reflect unsettled bargaining contracts. Calendar year 2004 payroll figures increased 6% for all employees except the School Department and Executive Management to reflect unsettled bargaining contracts, further adjustment was necessary for all employees due to extra pay period in 2004.

SECTION 2: Valuation Results for the City of Worcester Retirement Board

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 nine valuations can be seen in this chart.

CHART 1

Participant Population: 1997 – 2005

Year Ended December 31	Active Participants	Inactive Participants	Retired Participants and Beneficiaries	Ratio of Non-Actives to Actives
1997	3,637	991	3,038	1.11
1998	3,662	892	3,004	1.06
1999	3,840	826	2,972	0.99
2000	3,910	905	2,950	0.99
2001	4,080	929	2,905	0.94
2002	3,679	1,094	3,001	1.11
2003	3,409	1,102	2,996	1.20
2004	3,498	1,017	2,964	1.14
2005	3,430	1,007	2,919	1.14

SECTION 2: Valuation Results for the City of Worcester Retirement Board

Active Participants

Plan costs are affected by the age, years of service and payroll of active participants. In this year's valuation, there were 3,430 active participants with an average age of 46.0, average years of service of 12.5 years and average payroll of \$40,528. The 3,498 active participants in the prior valuation had an average age of 45.5, average service of 11.9 years and average payroll of \$40,105.

Among the active participants, there were no participants with unknown age and/or service information.

Inactive Participants

In this year's valuation, there were 42 participants with a vested right to a deferred or immediate benefit and 965 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

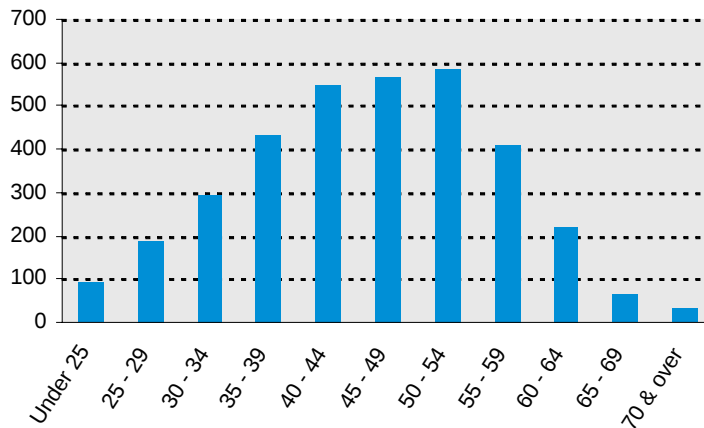
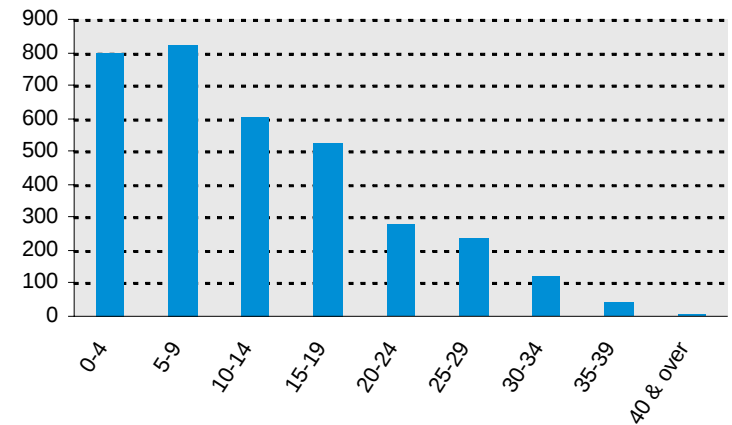


CHART 3

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



SECTION 2: Valuation Results for the City of Worcester Retirement Board

Retired Participants and Beneficiaries

As of December 31, 2005, 2,358 retired participants and 561 beneficiaries were receiving total monthly benefits of \$4,163,656 excluding COLAs reimbursed by the Commonwealth. For comparison, in the previous valuation, there were 2,396 retired participants and 568 beneficiaries receiving monthly benefits of \$4,057,622 excluding COLAs reimbursed by the Commonwealth. There were no retired participants in suspended status this year compared to three in the prior year.

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

■ Beneficiaries
■ Accidental Disability
■ Ordinary Disability
■ Superannuation

CHART 4

Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of December 31, 2005

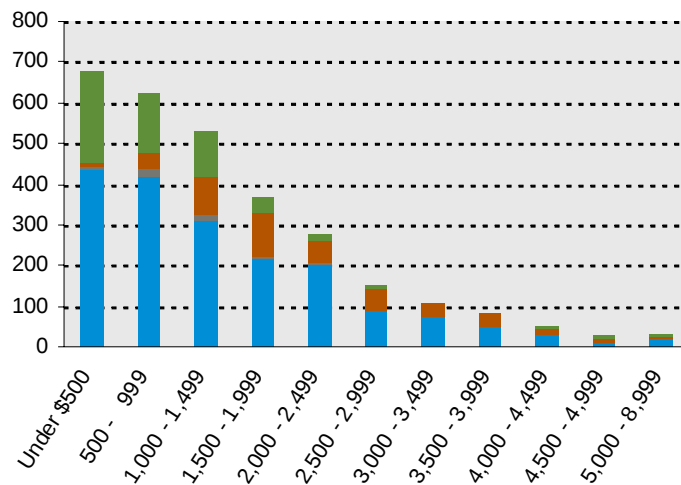
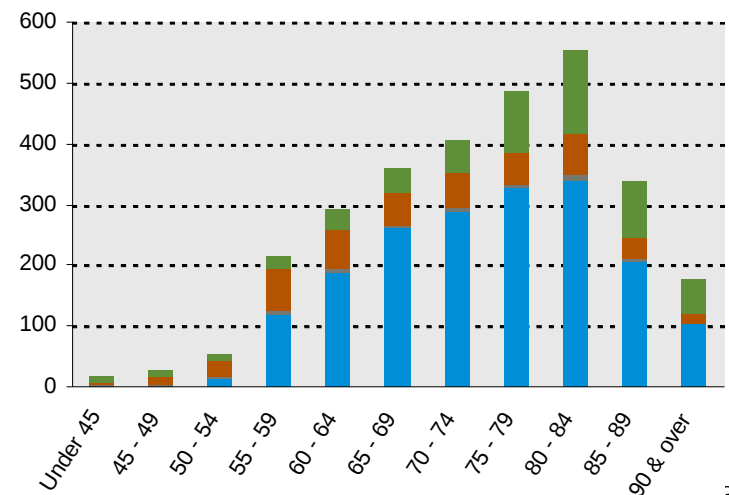


CHART 5

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



SECTION 2: Valuation Results for the City of Worcester Retirement Board

B. FINANCIAL INFORMATION

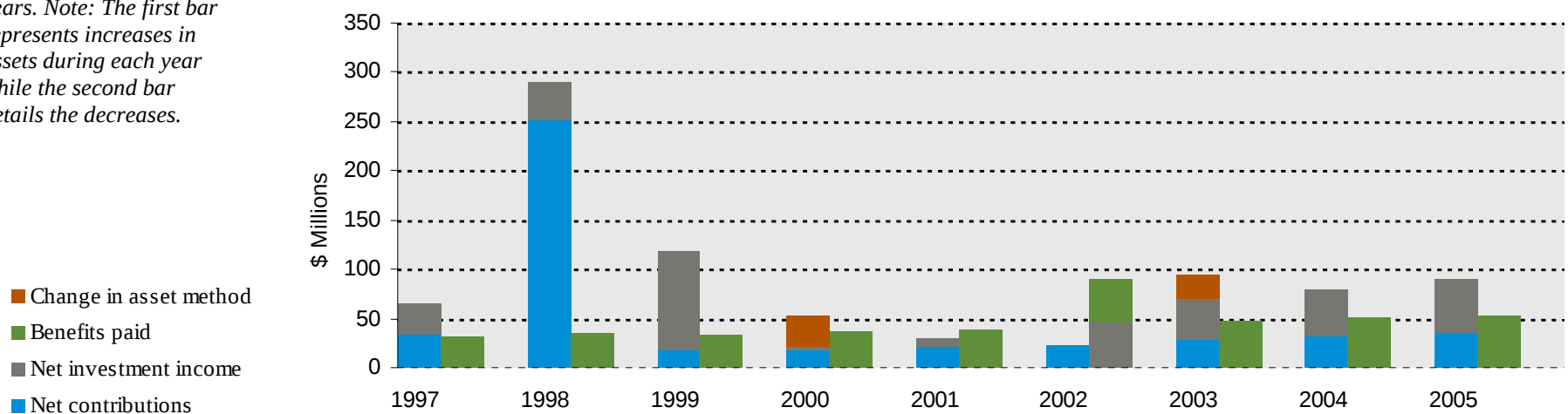
Retirement plan funding anticipates that, over the long term, both net contributions (less administrative expenses) and net investment earnings (less investment fees) will be needed to cover benefit payments.

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 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, 1997 – 2005



SECTION 2: Valuation Results for the City of Worcester Retirement Board

In 2000, the Board 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.

In 2005, the actuarial value of assets was set equal to market value. The Board has elected to continue using market value to determine the System's unfunded actuarial accrued liability and funding schedule.

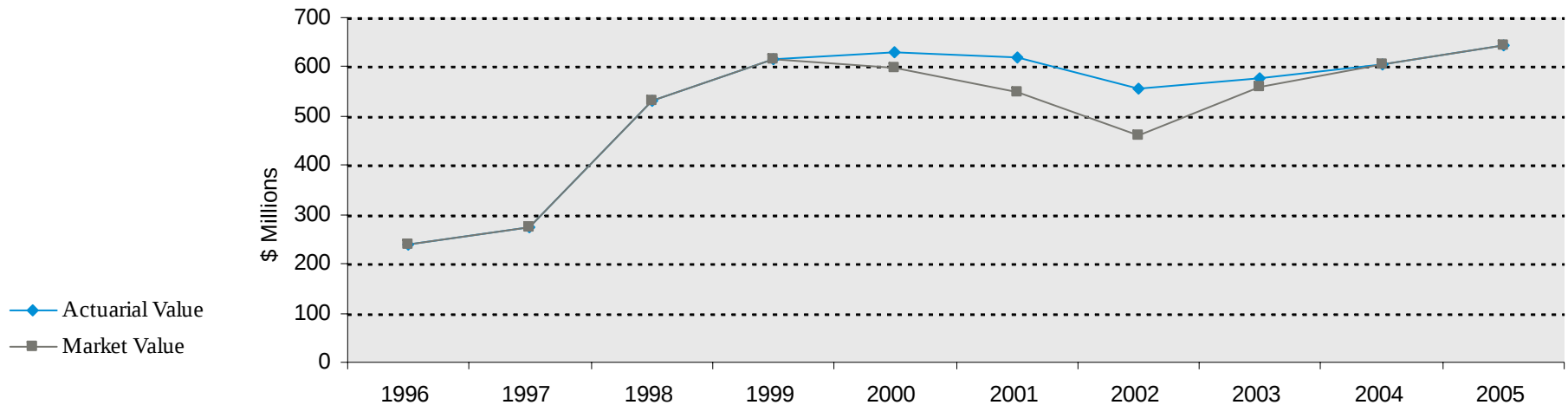
The Board has the option to return to an asset "smoothing" method in the future should they decide the current method (using market value) is producing undesirable fluctuations.

The actuarial asset value is significant because the Worcester 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 actuarial value of assets versus the market value of assets over the past ten years.

CHART 7

Actuarial Value of Assets vs. Market Value of Assets as of December 31, 1996 – 2005



SECTION 2: Valuation Results for the City of Worcester Retirement Board

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 gain for the year ended December 31, 2005 is \$19,610,740. 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 8

Actuarial Experience for Year Ended December 31, 2005

1. Net gain from investments*	\$4,698,351
2. Net gain from administrative expenses	46,892
3. Net gain from other experience**	<u>14,865,497</u>
4. Net experience gain: (1) + (2) + (3)	\$19,610,740

* Details in Chart 9

** Details in Chart 12

SECTION 2: Valuation Results for the City of Worcester Retirement Board

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 Worcester Retirement System's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets has been 8.50%. The actual rate of return for the 2005 plan year was 9.29%.

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

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

CHART 9

Actuarial Value Investment Experience for Year Ended December 31, 2005

1. Actual return	\$55,470,778
2. Average value of assets	597,322,671
3. Actual rate of return: (1) ÷ (2)	9.29%
4. Assumed rate of return	8.50%
5. Expected return: (2) x (4)	\$50,772,427
6. Actuarial gain/(loss): (1) – (5)	<u>\$4,698,351</u>

SECTION 2: Valuation Results for the City of Worcester Retirement Board

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 for the last nine years, including the five-year and nine-year averages.

With this valuation, the assumed rate of return was lowered from 8.50% to 8.25%.

CHART 10

Investment Return – Actuarial Value vs. Market Value: 1997 - 2005

Year Ended December 31	Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent
1997	\$33,271,094	13.82%	\$33,271,094	13.82%
1998	38,882,211	14.22	38,882,211	14.22
1999	101,149,011	19.38	101,149,011	19.38
2000	35,128,309	5.80	2,494,022	0.41
2001	8,897,926	1.43	-29,978,425	-5.09
2002	-46,582,424	-7.63	-67,436,801	-12.50
2003	41,670,173	7.65	115,476,574	25.52
2004	47,848,351	8.43	66,406,965	12.09
2005	55,470,778	9.29	55,470,778	9.29
Total	\$315,735,429		\$315,735,429	
	Five-year average return	3.65%		5.13%
	Nine-year average return	6.89%		7.23%

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

2000, 2003, and 2004 actuarial value investment returns include a change in asset method.

SECTION 2: Valuation Results for the City of Worcester Retirement Board

Chart 11 shows the actuarial rate of return and the market value rate of return for the past nine years.

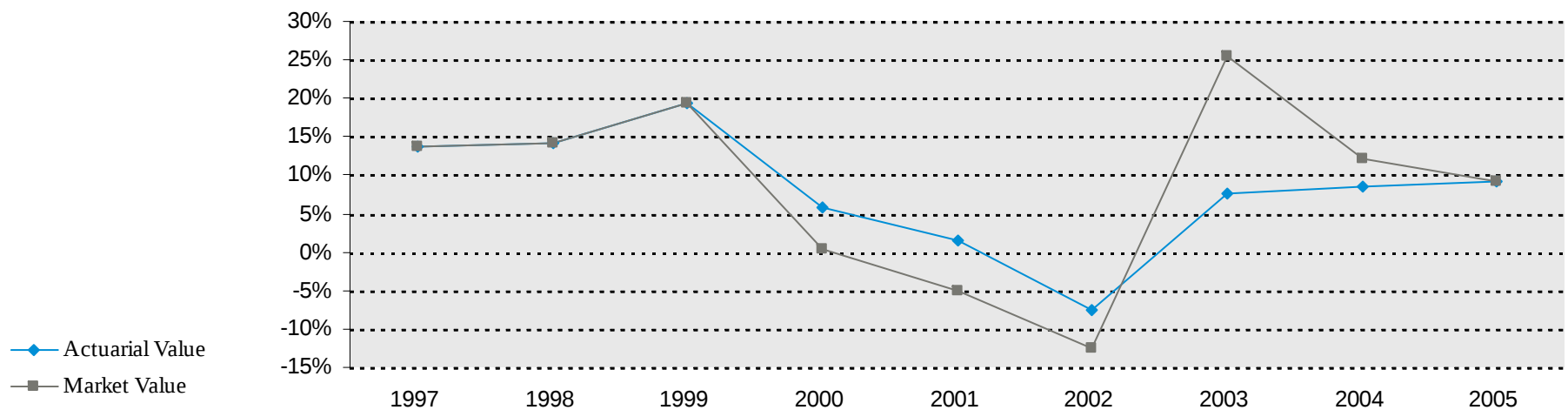
Administrative Expenses

Administrative expenses for the year ended December 31, 2005 totaled \$556,781 compared to the assumption of \$600,000 payable at the beginning of the year. This resulted in a gain of \$46,892 for the year. We have maintained the assumption of \$600,000 for the current year.

This chart illustrates the rates of return. 2000, 2003 and 2004 include changes in asset method.

CHART 11

Actuarial Rates of Return vs. Market Value Rates of Return for Years Ended December 31, 1997 - 2005



SECTION 2: Valuation Results for the City of Worcester Retirement Board

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 \$14,865,497 which is 1.9% of the actuarial accrued liability. Detail is shown in the chart below.

As noted on page 8, the investment rate assumption was lowered from 8.50% to 8.25%.

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.

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

CHART 12

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

1. Salary increases less than expected	\$15,436,512
2. Deaths among retired members and beneficiaries	358,945
3. Miscellaneous	<u>-929,960</u>
4. Total experience gain	\$14,865,497

SECTION 2: Valuation Results for the City of Worcester Retirement Board

D. RECOMMENDED CONTRIBUTION

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

We have determined the fiscal 2007 appropriation of \$23,316,836 by maintaining the 12-year increasing (1.5% per year) amortization payment on the 2002 ERI, shortening the amortization payment on the 2003 ERI from 13 years to 6 years (after applying the additional contribution of \$1,175,586 made on July 1, 2005 to the 2003 ERI), maintaining the 8-year level dollar amortization

of the Section 90 ACD liability, and maintaining the 17-year increasing (4.5% per year) amortization of the remaining unfunded accrued liability as of July 1, 2006.

The remaining unfunded accrued liability includes \$370,567 for the future payments of the veterans' allowance to accidental disability retirees.

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

CHART 13 Recommended Contribution

	Year Beginning January 1			
	2006		2005	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$20,559,434	14.10%	\$19,762,054	13.43%
2. Administrative expenses	600,000	0.41%	600,000	0.41%
3. Expected employee contributions	<u>-12,415,577</u>	<u>-8.51%</u>	<u>-12,436,991</u>	<u>-8.45%</u>
4. Employer normal cost: (1) + (2) + (3)	\$8,743,857	6.00%	\$7,925,063	5.39%
5. Actuarial accrued liability	806,957,464		771,948,311	
6. Actuarial value of assets	<u>644,016,504</u>		<u>606,099,616</u>	
7. Unfunded actuarial accrued liability: (5) - (6)	\$162,940,960		\$165,848,695	
8. Employer normal cost projected to July 1, 2006 and 2005	8,917,019	6.00%	8,082,010	5.39%
9. Projected unfunded actuarial accrued liability	169,529,087		172,753,529	
10. Payment on projected unfunded actuarial accrued liability	14,399,817	9.68%	14,146,882	9.43%
11. Total recommended contribution: (8) + (10)	<u>\$23,316,836</u>	<u>15.68%</u>	<u>22,228,892</u>	<u>14.82%</u>
12. Projected payroll	\$148,718,608		\$150,040,287	

Note: Recommended contributions are assumed to be paid at the beginning of the fiscal year.

SECTION 2: Valuation Results for the City of Worcester Retirement Board

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.

Reconciliation of Recommended Contribution

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 14

Reconciliation of Recommended Contribution from July 1, 2005 to July 1, 2006

Recommended Contribution as of July 1, 2005	\$22,228,892
Expected increase	\$846,241
Effect of gain from salary increases less than expected	-1,256,013
Effect of investment gain	-382,006
Effect of change in investment return assumption	2,343,821
Effect of net other changes	<u>-464,099</u>
Total change	<u>\$1,087,944</u>
Recommended Contribution as of July 1, 2006	\$23,316,836

SECTION 2: Valuation Results for the City of Worcester Retirement Board

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

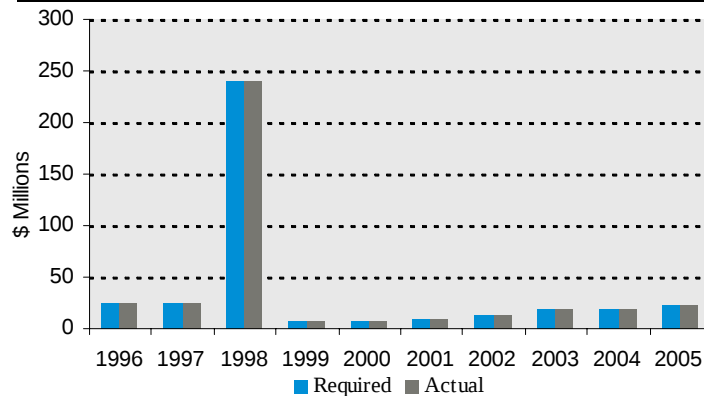
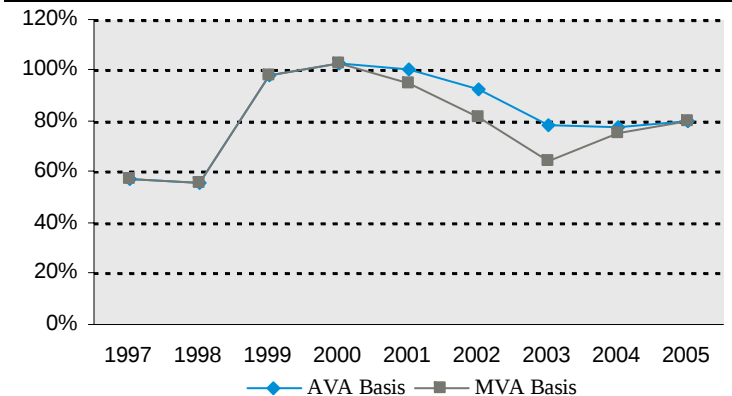


CHART 16
Funded Ratio



SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT A

Table of Plan Coverage

	Year Ended December 31		Change From Prior Year
Category	2005	2004	
Active participants in valuation:			
Number	3,430	3,498	-1.9%
Average age	46.0	45.5	N/A
Average service	12.5	11.9	N/A
Total payroll*	\$139,009,399	\$140,287,074	-0.9%
Average payroll*	40,528	40,105	1.1%
Account balances	124,643,517	116,911,047	6.6%
Inactive participants entitled to a return of their employee contributions	965	1,017	N/A
Inactive participants with a vested right to a deferred or immediate benefit	42	N/A	N/A
Retired participants:			
Number in pay status	1,846	1,890	-2.3%
Average age	74.7	74.5	N/A
Average monthly benefit	\$1,397	\$1,345	3.9%
Number in suspended status	0	3	N/A
Disabled participants:			
Number in pay status	512	506	1.2%
Average age	69.4	69.7	N/A
Average monthly benefit	\$2,079	\$1,973	5.4%
Beneficiaries in pay status	561	568	-1.2%

* Calendar year 2005 payroll figures were reduced 2.25% for police officers to reflect retroactive salary payments made in 2005 and increased by 4.0% for unions identified by the City to reflect unsettled bargaining contracts. Calendar year 2004 payroll figures increased 6% for all employees except the School Department and Executive Management to reflect unsettled bargaining contracts, further adjustment was necessary for all employees due to extra pay period in 2004.

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

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	91	87	4	--	--	--	--	--	--	--
	\$21,603	\$22,008	\$12,798	--	--	--	--	--	--	--
25 - 29	188	145	43	--	--	--	--	--	--	--
	30,602	30,133	32,184	--	--	--	--	--	--	--
30 - 34	293	118	140	33	2	--	--	--	--	--
	42,355	35,354	45,821	\$52,105	\$51,991	--	--	--	--	--
35 - 39	431	106	134	139	48	4	--	--	--	--
	43,605	30,947	40,181	54,850	49,410	\$33,286	--	--	--	--
40 - 44	550	125	148	115	121	40	1	--	--	--
	41,046	24,856	30,566	50,632	56,002	57,819	\$33,062	--	--	--
45 - 49	567	86	136	101	121	90	32	1	--	--
	40,195	24,680	28,223	37,793	49,430	57,665	55,874	\$53,755	--	--
50 - 54	586	67	94	93	102	69	128	32	1	--
	44,804	28,795	31,059	36,298	41,040	53,944	63,818	59,839	\$39,087	--
55 - 59	409	41	72	65	70	35	48	60	18	--
	41,888	28,055	29,438	35,347	38,576	41,096	63,123	57,490	52,601	--
60 - 64	221	18	36	38	40	29	18	19	21	2
	38,071	25,097	29,808	35,344	32,480	31,880	41,825	58,916	63,478	\$58,389
65 - 69	63	4	11	13	13	8	5	5	2	2
	33,467	19,495	30,724	29,428	34,854	30,217	44,960	29,865	64,358	56,131
70 & over	31	1	4	5	7	3	3	3	2	3
	26,164	14,916	13,146	20,860	29,502	24,657	33,724	24,975	31,574	39,846
Total	3,430	798	822	602	524	278	235	120	44	7
	\$40,528	\$28,308	\$34,184	\$43,998	\$45,950	\$50,491	\$59,994	\$56,347	\$57,064	\$49,797

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

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	\$23,579,478	\$20,150,377
Employee contributions	11,905,078	11,692,796
Less administrative expenses	<u>-556,781</u>	<u>-518,078</u>
Net contribution income	\$34,927,775	\$31,325,095
Net investment income	<u>55,470,778</u>	<u>47,848,351</u>
Total income available for benefits	\$90,398,553	\$79,173,446
Less benefit payments:		
Pensions	-\$45,977,644	-\$44,413,484
Net 3(8)(c) reimbursements	-1,861,287	-1,483,636
Refunds, annuities, and Option B refunds	-7,308,136	-7,441,162
State reimbursements	<u>2,665,402</u>	<u>3,141,385</u>
Net benefit payments	-\$52,481,665	-\$50,196,897
Change in reserve for future benefits	\$37,916,888	\$28,976,549

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

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
1996	--	--	--	--	--	--	\$240,591,600
1997	--	--	--	--	--	--	274,085,327
1998	--	--	--	--	--	--	529,999,363
1999	\$8,205,319	\$9,632,389	0	\$101,149,011	\$383,162	\$33,708,000	614,894,920
2000	8,280,410	10,219,772	0	35,128,309	391,295	37,417,498	630,714,618
2001	9,480,000	11,481,856	\$3,471	8,897,926	462,010	39,301,554	620,814,307
2002	12,956,778	11,182,339	0	-46,582,424	573,697	43,607,213	554,190,090
2003	18,928,252	10,333,125	0	41,670,173	440,295	47,558,278	577,123,067
2004	20,150,377	11,692,796	0	47,848,351	518,078	50,196,897	606,099,616
2005	23,579,478	11,905,078	0	55,470,778	556,781	52,481,665	644,016,504

* Net of investment expenses. Reflects changes in asset method in 2000, 2003, and 2004.

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT E

Development of Unfunded Actuarial Accrued Liability for Year Ended December 31, 2005

1. Unfunded actuarial accrued liability at beginning of year		\$165,848,694
2. Normal cost at beginning of year		20,362,054
3. Total contributions		-35,484,556
4. Interest		
(a) For whole year on (1) + (2)	\$15,827,914	
(b) For half year on (3)	<u>-1,362,059</u>	
(c) Total interest		<u>14,465,855</u>
5. Expected unfunded actuarial accrued liability		\$165,192,047
6. Changes due to:		
(a) Experience gain	-\$19,610,740	
(b) Assumption changes	16,989,086	
(c) Veterans' allowance for accidental disability retirees	<u>370,567</u>	
(d) Net gain as of January 1, 2006: (a) + (b) + (c)		<u>-2,251,087</u>
7. Unfunded actuarial accrued liability at end of year: (5) + (6) (d)		<u>\$162,940,960</u>

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT F

Table of Amortization Bases as of July 1, 2006

Type	Annual Payment	Rate of Increase	Years Remaining	Outstanding Balance
2002 ERI	\$1,439,675	1.5%	12	\$12,425,938
2003 ERI	485,625	0.0%	6	2,411,878
Section 90 ACD liability	1,116,983	0.0%	8	6,883,015
Remaining unfunded liability	<u>11,357,534</u>	4.5%	17	<u>147,808,256</u>
Total	\$14,399,817			\$169,529,087

*Notes: Additional contribution of \$1,175,586 made on July 1, 2005 was applied to the 2003 ERI.
Recommended contributions are assumed to be paid at the beginning of the fiscal year.*

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT G

Funding Schedule

(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 Section 90 ACD Liability	(6) Amortization of Remaining Unfunded Liability	(7) Total Plan Cost: (2) + (3) + (4) + (5) + (6)	(8) Total Unfunded Actuarial Accrued Liability
2007	\$8,917,019	\$1,439,675	\$485,625	\$1,116,983	\$11,357,534	\$23,316,836	\$169,529,087
2008	9,273,700	1,461,270	485,625	1,116,983	11,868,624	24,206,202	167,927,435
2009	9,644,648	1,483,189	485,625	1,116,983	12,402,712	25,133,157	165,617,015
2010	10,030,434	1,505,437	485,625	1,116,983	12,960,834	26,099,313	162,514,108
2011	10,431,651	1,528,019	485,625	1,116,983	13,544,072	27,106,350	158,526,960
2012	10,848,917	1,550,939	485,625	1,116,983	14,153,555	28,156,019	153,555,073
2013	11,282,874	1,574,203	-	1,116,983	14,790,465	28,764,525	147,488,429
2014	11,734,189	1,597,816	-	1,116,983	15,456,036	29,905,024	140,732,337
2015	12,203,557	1,621,783	-	-	16,151,558	29,976,898	132,672,826
2016	12,691,699	1,646,110	-	-	16,878,378	31,216,187	124,378,693
2017	13,199,367	1,670,802	-	-	17,637,905	32,508,074	114,587,177
2018	13,727,342	1,695,864	-	-	18,431,611	33,854,817	103,138,944
2019	14,276,436	-	-	-	19,261,033	33,537,469	89,859,915
2020	14,847,493	-	-	-	20,127,779	34,975,272	76,423,290
2021	15,441,393	-	-	-	21,033,529	36,474,922	60,939,891
2022	16,059,049	-	-	-	21,980,038	38,039,087	43,198,637
2023	16,701,411	-	-	-	22,969,140	39,670,551	22,969,133
2024	17,369,467	-	-	-	-	17,369,467	-
2025	18,064,246	-	-	-	-	18,064,246	-
2026	18,786,816	-	-	-	-	18,786,816	-
2027	19,538,289	-	-	-	-	19,538,289	-
2028	20,319,821	-	-	-	-	20,319,821	-

Notes: Assumes payment at the beginning of the fiscal year.

Normal cost and expenses are assumed to increase at 4.0% per year.

Amortization payments on the 2002 ERI calculated to increase at 1.5% per year.

Amortization payments on the remaining unfunded liability calculated to increase at 4.5% per year.

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT H

Department Allocations of 2002 and 2003 ERI Amortization Payments and Section 90 ACD Amortization Payments

The total employer contribution, excluding the ERI and Section 90 ACD amortizations, is \$20,274,553. This amount will be allocated to each department based on September 30 payroll. The ERI and Section 90 ACD amortizations are allocated to each department based on actual ERI and Section 90 ACD participants, as shown below.

Department Allocation of ERI Amortizations

Department	Allocation of 2002 ERI Amortization	Allocation of 2003 ERI Amortization	Allocation of Section 90 ACD Amortization
DPW – Other	--	\$110,745	\$20,817
DPW – Sewer	\$68,954	40,800	11,358
DPW – Water	91,552	18,186	25,864
Fire	274,607	--	426,980
Housing Authority	137,340	--	--
Police	104,406	--	366,575
Public Schools	329,329	113,388	49,667
Other	<u>433,487</u>	<u>202,506</u>	<u>215,722</u>
Total Fiscal Year 2007 Payment	\$1,439,675	\$485,625	\$1,116,983

SECTION 3: Supplemental Information for the City of Worcester Retirement Board

EXHIBIT I

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 Worcester Retirement Board

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 Worcester Retirement Board

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 561 beneficiaries in pay status)	2,919
2. Participants active during the year ended December 31, 2005 with total accumulated contributions of \$124,643,517 and projected payroll of \$145,830,593	3,430
3. Inactive participants with a right to a return of their employee contributions as of December 31, 2005	965
4. Inactive participants with a vested right to a deferred or immediate benefit as of December 31, 2005	42

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

1. Normal cost, including administrative expenses	\$21,159,434
2. Expected employer contributions	<u>-12,415,577</u>
3. Employer normal cost: (1) + (2)	\$8,743,857
4. Actuarial accrued liability	806,957,464
Retired participants and beneficiaries	\$438,740,267
Active participants	362,331,910
Inactive participants	5,885,287
5. Actuarial value of assets (\$644,016,504 at market value)	644,016,504
6. Unfunded actuarial accrued liability: (4) - (5)	162,940,960

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

1. Employer normal cost projected to July 1, 2006	\$8,917,019
2. Projected unfunded actuarial accrued liability	169,529,087
3. Payment on projected unfunded actuarial accrued liability	14,399,817
4. Total recommended contribution: (1) + (3)	<u>\$23,316,836</u>
5. Projected payroll	\$148,718,608
6. Total recommended contribution as a percentage of projected payroll: (4) ÷ (5)	15.68%

Note: Recommended contributions are assumed to be paid at the beginning of the fiscal year.

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EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended December 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
1996	\$24,848,989	\$24,848,989	100.0%
1997	24,306,855	24,306,855	100.0%
1998	241,213,831	241,213,831	100.0%
1999	8,188,518	8,188,518	100.0%
2000	8,280,410	8,280,410	100.0%
2001	9,480,000	9,480,000	100.0%
2002	12,956,778	12,956,778	100.0%
2003	18,928,252	18,928,252	100.0%
2004	20,150,377	20,150,377	100.0%
2005	22,228,892	23,579,478	106.1%

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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	\$240,541,600	\$417,808,800	\$177,267,200	57.57%	\$101,734,300	174.25%
01/01/1998	274,085,327	489,842,856	215,757,529	55.95%	114,506,623	188.42%
01/01/1999	529,999,363	538,803,009	8,803,646	98.37%	115,742,392	7.61%
01/01/2000	614,894,920	598,179,134	-16,715,786	102.79%	130,376,689	-12.82%
01/01/2001	630,714,618	628,681,483	-2,033,135	100.32%	136,000,517	-1.49%
01/01/2002	620,814,307	671,876,943	51,062,636	92.40%	148,764,543	34.32%
01/01/2003	554,190,090	715,855,564	161,665,474	77.42%	142,802,508	113.21%
01/01/2004	577,123,067	743,570,440	166,447,373	77.62%	138,796,895	119.92%
01/01/2005	606,099,616	771,948,311	165,848,695	78.52%	147,126,606	112.73%
01/01/2006	644,016,504	806,957,464	162,940,960	79.81%	145,830,593	111.73%

SECTION 4: Reporting Information for the City of Worcester Retirement Board

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	January 1, 2006
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Payments increase 1.50% per year on the 2002 ERI liability, level payments on the 2003 ERI liability and the Section 90 ACD liability and 4.50% on the remaining unfunded liability
Remaining amortization period	12 years for the 2002 ERI liability 6 years for the 2003 ERI liability 8 years for the Section 90 ACD liability and 17 years for the remaining unfunded liability
Asset valuation method	Market value

Actuarial assumptions:	
Investment rate of return	8.25% (previously 8.50%)
Projected salary increases	5.00%
Cost of living adjustments	3.00% for first \$12,000 of retirement income.

Plan membership:	
Retired participants and beneficiaries receiving benefits	2,919
Terminated participants entitled to a return of their employee contributions	965
Terminated participants with a vested right to a deferred or immediate benefit	42
Active participants	<u>3,430</u>
Total	7,356

SECTION 4: Reporting Information for the City of Worcester Retirement Board

EXHIBIT V

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

<i>Healthy:</i>	1994 Group Annuity Mortality Table
<i>Disabled:</i>	1994 Group Annuity Mortality Table set forward 10 years

Termination Rates before Retirement:

Age	Rate (%)			
	Mortality		Groups 1 and 2	
	Male	Female	Disability	Withdrawal
20	0.05	0.03	0.02	12.00
25	0.07	0.03	0.03	8.78
30	0.08	0.04	0.04	5.55
35	0.09	0.05	0.05	3.93
40	0.11	0.07	0.07	2.31
45	0.16	0.10	0.13	1.89
50	0.26	0.14	0.19	1.46
55	0.44	0.23	0.29	0.00
60	0.80	0.44	0.38	0.00

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.

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Age	Mortality		Group 4	
	Male	Female	Disability	Withdrawal
20	0.05	0.03	0.08	2.10
25	0.07	0.03	0.12	1.88
30	0.08	0.04	0.17	1.65
35	0.09	0.05	0.41	1.11
40	0.11	0.07	0.65	0.56
45	0.16	0.10	0.89	0.28
50	0.26	0.14	1.13	0.00
55	0.44	0.23	1.33	0.00
60	0.80	0.44	1.53	0.00

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.

Retirement Rates:

Rate (%)			
Age	Groups 1 and 2	Age	Group 4
55	12.55	50	32.00
56	3.21	51	7.21
57	3.10	52	5.90
58	3.34	53	8.00
59	3.48	54	7.71
60	7.84	55	15.51
61	6.92	56	9.11
62	15.11	57	9.09
63	10.71	58	11.90
64	10.37	59	11.42
65	35.68	60	23.95
66	22.14	61	13.60

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Retirement Rates (continued):

Rate (%)			
Age	Groups 1 and 2	Age	Group 4
67	21.59	62	19.50
68	21.64	63	12.53
69	25.36	64	18.73
70	100.00	65	100.00

Unknown Data for Participants: Same as those exhibited by participants with similar known characteristics.

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

Percent Married: 80%

Net Investment Return: 8.25% (previously 8.50%)

Salary Increases:

Age	Present salary as a percent of salary at 65	Annual increase rate (%)
20	11.13	5.00
25	14.20	5.00
30	18.13	5.00
35	23.14	5.00
40	29.53	5.00
45	37.69	5.00
50	48.10	5.00
55	61.39	5.00
60	78.35	5.00

Includes allowance for inflation of 4.00%.

Administrative Expenses: \$600,000 for calendar 2006

SECTION 4: Reporting Information for the City of Worcester Retirement Board

2005 Salary:	2005 salary equal to salaries provided in the data, except for new hires where salaries were calculated from annualized contributions divided by the contribution rate(s) reported. The salaries of police officers were reduced by 2.25% to adjust for retroactive pay amounts. The salaries of participants in unions identified by the City were adjusted by 4% to reflect unsettled bargaining agreements.
Total Service:	Total creditable service based on adjusted date of hire, except special cases where date of hire was used.
Actuarial Value of Assets:	The actuarial value of assets is set equal to the market value of assets.
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is the age of the participant at the Adjusted Date of Hire. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary.

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EXHIBIT VI

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

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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).

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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 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 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 \$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.

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"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 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.