

**Town of Wellesley  
Contributory Retirement System**

**Governmental Accounting Standards Board (GASB)  
Statements No. 67 and 68 Accounting Valuation Report  
as of December 31, 2017**





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*May 21, 2018*

*Retirement Board*

*Town of Wellesley Contributory Retirement System*

*Town Hall*

*525 Washington Street*

*Wellesley, MA 02482*

*Dear Board Members:*

*We are pleased to submit this Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 Accounting Valuation as of December 31, 2017 for the Town of Wellesley Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan. It contains the actuarial information that will need to be disclosed in order to comply with GASB 67 and 68. Except as otherwise noted, please refer to the Town of Wellesley Contributory Retirement System Actuarial Valuation and Review as of July 1, 2017, dated October 26, 2017, for the data, assumptions and plan of benefits underlying these calculations.*

*This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist the Board and the member units in preparing their financial reports. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board and may only be provided to other parties in its entirety. The census and financial information on which our calculations were based was provided by the Town of Wellesley Contributory Retirement System. That assistance is gratefully acknowledged.*

*The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.*

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

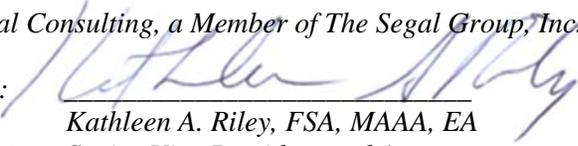
*The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in the actuarial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

*We look forward to reviewing this report with you and to answering any questions.*

*Sincerely,*

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

By:

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

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## SECTION 1

### VALUATION SUMMARY

Important Information About Actuarial Valuations .....	i
Purpose .....	iii
Significant Issues in Valuation Year .....	iii

## SECTION 2

### ACCOUNTING INFORMATION

EXHIBIT 1	
Net Pension Liability .....	1
EXHIBIT 2	
Schedule of Changes in the Net Pension Liability – Last Ten Years.....	4
EXHIBIT 3	
Schedule of Contributions – Last Ten Years.....	6
EXHIBIT 4	
Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions .....	7
EXHIBIT 5	
Determination of Proportionate Share .....	8
EXHIBIT 6	
Determination of Pension Amounts by Employer as of June 30, 2018.....	9
EXHIBIT 7	
Notes to Required Supplementary Information ....	13
Appendix A	
Glossary .....	14

## SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System

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### **Important Information About Actuarial Valuations**

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a pension plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare a valuation, Segal Consulting (“Segal”) relies on a number of input items. These include:

- **Plan of benefits** Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.
- **Participant data** An actuarial valuation for a plan is based on data provided to the actuary by the Town of Wellesley Contributory Retirement System. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
- **Assets** The valuation is based on the market value of assets as of the valuation date, as provided by the Town of Wellesley Contributory Retirement System. The Town of Wellesley Contributory Retirement System uses an “actuarial value of assets” that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.
- **Actuarial assumptions** In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results, that does not mean that the previous assumptions were unreasonable.

## SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System

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The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

- The actuarial valuation is prepared at the request of the Town of Wellesley Contributory Retirement System. Segal is not responsible for the use or misuse of its report, particularly by any other party.
- An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.
- Sections of this report may include actuarial results that are not rounded, but that does not imply precision.
- If the Town of Wellesley Contributory Retirement System is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Town of Wellesley Contributory Retirement System should look to their other advisors for expertise in these areas.

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

## **SECTION 1: Valuation Summary for the Town of Wellesley Contributory Retirement System**

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### **Purpose**

This report has been prepared by Segal Consulting to present certain disclosure information required by Governmental Accounting Standards Board Statements No. 67 and 68 as of December 31, 2017. This report is based on financial information as of December 31, 2017 provided by the Retirement System and the Town of Wellesley Contributory Retirement System Actuarial Valuation and Review as of January 1, 2017, dated October 26, 2017, which reflects:

- The benefit provisions of Massachusetts General Laws Chapter 32;
- The characteristics of covered active participants, inactive participants, and retired participants and beneficiaries as of January 1, 2017;
- The assets of the System as of December 31, 2016;
- 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 Net Pension Liability (NPL) is equal to the difference between the Total Pension Liability (TPL) and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the market value of assets and therefore, the NPL measure is very similar to an Unfunded Actuarial Accrued Liability (UAAL) on a market value basis. The NPL decreased from \$59.8 million as of December 31, 2016 to \$44.2 million as of December 31, 2017 and the Plan's Fiduciary Net Position as a percent of the TPL increased from 73.33% to 81.29%.
- The NPL measured as of December 31, 2017 and 2016 was determined based upon the results of the actuarial valuation as of January 1, 2017.
- The discount rate used to determine the TPL and NPL as of December 31, 2017 and 2016 was 6.625%.

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 1**

**Net Pension Liability**

The components of the net pension liability of the Town of Wellesley Contributory Retirement System are as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Total pension liability	\$236,431,841	\$224,137,166
Plan fiduciary net position	192,197,253	164,353,150
System's net pension liability	44,234,588	59,784,016
Plan fiduciary net position as a percentage of the total pension liability*	81.29%	73.33%

\* *These funded percentages are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligation or the need for or the amount of future contributions.*

*Actuarial assumptions.* The total pension liability as of December 31, 2017 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service for Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Investment rate of return	6.625%, net of pension plan investment expense, including inflation
Cost of Living Adjustments	2.75% of first \$15,000 in 2017, 2.75% of first \$16,000 in 2018, 2.75% of first \$17,000 in 2019 and 2.75% of first 18,000 in 2020 and later
Healthy:	RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables set forward one year for females projected generationally with Scale MP-20162D
Disabled:	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2017 and the target allocations as of December 31, 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTAA, Risk parity	13.00%	3.94%
Private equity	<u>12.00%</u>	10.28%
Total	100.00%	

*Note: Some asset classes included in the pension plan’s target asset allocation may have been combined.*

*Discount rate:* The discount rate used to measure the total pension liability was 6.625%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

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*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability, calculated using the discount rate of 6.625%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.625%) or 1-percentage-point higher (7.625%) than the current rate:

	<b>1% Decrease (5.625%)</b>	<b>Current Discount (6.625%)</b>	<b>1% Increase (7.625%)</b>
Town of Wellesley Contributory Retirement System's net pension liability as of December 31, 2017	\$73,204,630	\$44,234,588	\$20,002,921

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 2**

**Schedule of Changes in the Net Pension Liability – Last Ten Years**

	Year End December 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Total pension liability</b>										
Service cost	\$6,056,541	\$5,835,095	\$5,629,329	\$5,067,998						
Interest	14,872,702	14,622,378	14,040,337	13,553,363						
Differences between expected and actual experience	--	-3,526,008	--	-4,690,325						
Changes of assumptions	--	2,112,997	--	10,614,112						
Changes of benefit terms	2,765,608	--	--	--	(Historical information prior to implementation of GASB 67/68 is not required)					
Benefit payments, including refunds of employee contributions	<u>-11,400,176</u>	<u>-11,400,054</u>	<u>-11,105,145</u>	<u>-10,336,763</u>						
<b>Net change in total pension liability</b>	\$12,294,675	\$7,644,408	\$8,564,521	\$14,208,385						
<b>Total pension liability - beginning</b>	<u>224,137,166</u>	<u>216,492,758</u>	<u>207,928,237</u>	<u>193,719,852</u>						
<b>Total pension liability - ending (a)</b>	\$236,431,841	\$224,137,166	\$216,492,758	\$207,928,237						
<b>Plan fiduciary net position</b>										
Contributions - employer	\$7,874,297	\$7,562,273	\$7,304,832	\$7,070,467						
Contributions - employee	3,734,439	3,608,960	3,478,496	3,393,034						
Net investment income	27,879,098	11,291,224	1,152,712	10,717,718						
Benefit payments, including refunds of employee contributions	-11,400,176	-11,400,054	-11,105,145	-10,336,763	(Historical information prior to implementation of GASB 67/68 is not required)					
Administrative expenses	<u>-243,555</u>	<u>-245,349</u>	<u>-250,722</u>	<u>-226,954</u>						
<b>Net change in fiduciary net position</b>	\$27,844,103	\$10,817,054	\$580,173	\$10,617,502						
<b>Plan fiduciary net position - beginning</b>	<u>164,353,150</u>	<u>153,536,096</u>	<u>152,955,923</u>	<u>142,338,421</u>						
<b>Plan fiduciary net position - ending (b)</b>	\$192,197,253	\$164,353,150	\$153,536,096	\$152,955,923						
<b>Net pension liability – ending: (a)-(b)</b>	\$44,234,588	\$59,784,016	\$62,956,662	\$54,972,314						
<b>Plan's fiduciary net position as a percentage of the total pension liability</b>	81.29%	73.33%	70.92%	73.56%	(Historical information prior to implementation of GASB 67/68 is not required)					
<b>Covered-employee payroll</b>	\$38,226,711	\$36,836,364	\$35,959,727	\$35,228,283						
<b>Net pension liability as a percentage of covered-employee payroll</b>	115.72%	162.30%	175.08%	156.05%						

Notes: Covered-employee payroll for 2017 and 2016 as estimated in the January 1, 2017 funding valuation report.  
 Covered-employee payroll for 2015 and 2014 as estimated in the January 1, 2015 and January 1, 2013 funding valuation reports, respectively.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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### Notes to Schedule:

#### *Changes in Assumptions:*

The following changes were effective January 1, 2015:

- The investment return assumption was decreased from 7.00% to 6.75%.
- The mortality assumption was changed from the RP-2000 Healthy Employee and Annuitant Mortality Tables projected 15 years with Scale AA to the RP-2014 Blue Collar Healthy Employee and Annuitant Mortality Tables with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward 3 years for males to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 3 years for males projected with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D.
- The asset valuation method was changed from an actuarial value of assets with a fresh start as of January 1, 2013 to an actuarial value of assets with a fresh start as of January 1, 2015.
- The retirement rates were reduced for certain ages.
- The retirement age for inactive vested participants was changed from age 55 to age 60 for Group 1 and 2 members and from age 45 to age 50 for Group 4 members.

The following changes were effective January 1, 2017:

- The investment return assumption was decreased from 6.75% to 6.625%.
- The mortality assumption was changed from the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D to the RP-2014 Blue Collar Employee and Healthy Annuitant Tables set forward one year for females projected generationally with Scale MP-20162D.
- The mortality assumption for disabled participants was changed from the RP-2014 Blue Collar Healthy Annuitant Mortality Table projected with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D set forward 3 years for males to the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015.
- The administrative expense assumption was increased from \$250,000 to \$275,000.
- The inflation rate was lowered from 3.50% to 2.75%.
- The Cost of Living Adjustment (COLA) assumption was changed from a 3.00% increase on the first \$15,000 of retirement allowance to a 2.75% increase on the first \$15,000 of retirement allowance.

#### *Changes in Plan Provisions:*

The following change was reflected January 1, 2018:

- As permitted by Section 19 of Chapter 188 of the Acts of 2010, the Cost of Living Adjustment base was increased to \$16,000 effective July 1, 2018, \$17,000 effective July 1, 2019 and to \$18,000 effective July 1, 2020.

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 3**

**Schedule of Contributions – Last Ten Years**

	Year End December 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$7,835,775	\$7,562,273	\$7,285,897	\$7,040,036						
Contributions in relation to the actuarially determined contribution	<u>7,874,297</u>	<u>7,562,273</u>	<u>7,304,832</u>	<u>7,070,467</u>						
Contribution deficiency (excess)	-\$38,522	\$0	-\$18,935	-\$30,431						
Covered-employee payroll	\$38,226,711	\$36,836,364	\$35,959,727	\$35,228,283						
Contributions as a percentage of covered-employee payroll	20.60%	20.53%	20.31%	20.07%	(Historical information prior to implementation of GASB 67/68 is not required)					

*Note: Actuarially determined contributions for 2017 and 2016 are based on results from the January 1, 2015 actuarial valuation and actuarially determined contributions for 2015 and 2014 are based on results from the January 1, 2013 actuarial valuation.*

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 4**

**Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

**A. Pension expense for the year ended June 30, 2018**

Service cost	\$6,056,541
Interest	14,872,702
Contributions – employee	-3,734,439
Projected earnings on pension plan investments	-10,887,237
Administrative expenses	243,555
Recognized portion of current-period difference between expected and actual experience	0
Recognized portion of current-period difference between projected and actual earnings on pension plan investments	-3,398,372
Recognized portion of current year period assumption change	0
Recognized portion of current year period plan change	2,765,608
Recognition of deferred outflows of resources	3,951,683
Recognition of deferred inflows of resources	<u>-1,709,604</u>
Pension expense for fiscal year ended June 30, 2018	\$8,160,437

**B. Deferred outflows/inflows of resources related to pensions**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$0	\$3,914,113
Changes of assumptions	4,946,701	0
Net difference between projected and actual earnings on pension plan investments	<u>0</u>	<u>10,650,126</u>
Total	\$4,946,701	\$14,564,239

**C. Projected recognition of deferred outflows/(inflows)**

	<b>Year Ended June 30,</b>	<b>Recognition</b>
	2019	-\$1,156,295
	2020	-1,004,786
	2021	-3,822,583
	2022	-3,633,874
	Thereafter	0

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 5**

**Determination of Proportionate Share**

<b>Employer Name</b>	<b>Share of NPL as of January 1, 2017</b>	<b>Percent of NPL as of January 1, 2017</b>	<b>Share of NPL as of January 1, 2018</b>	<b>Percent of NPL as of January 1, 2018</b>
Housing	\$499,344	0.835247%	\$377,406	0.853193%
Water	3,405,014	5.695525%	2,525,232	5.708727%
Light	5,509,711	9.216027%	4,059,497	9.177201%
School	12,244,956	20.481989%	9,021,931	20.395649%
Town of Wellesley	38,124,991	63.771212%	28,250,522	63.865230%
<b>Grand Totals:</b>	<b>\$59,784,016</b>	<b>100.000000%</b>	<b>44,234,588</b>	<b>100.000000%</b>

*Note: NPL allocations for January 1, 2018 and January 1, 2017 based on the results of the January 1, 2017 actuarial valuation.*

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

**EXHIBIT 6**

**Determination of Pension Amounts by Employer as of June 30, 2018**

Employer Name	Employer's Proportionate Share Allocation (1)	Net Pension Liability (2)	Covered Employee Payroll (3)	Discount Rate Sensitivity		
				1% Decrease (5.625%) (4)	Current Discount Rate (6.625%) (5)	1% Increase (7.625%) (6)
Housing	0.853193%	\$377,406	\$360,382	\$624,577	\$377,406	\$170,664
Water	5.708727%	2,525,232	1,984,919	4,179,052	2,525,232	1,141,912
Light	9.177201%	4,059,497	2,275,487	6,718,136	4,059,497	1,835,708
School	20.395649%	9,021,931	12,038,626	14,930,559	9,021,931	4,079,726
Town of Wellesley	63.865230%	28,250,522	21,567,297	46,752,306	28,250,522	12,774,911
<b>Grand Totals:</b>	<b>100.000000%</b>	<b>\$44,234,588</b>	<b>\$38,226,711</b>	<b>\$73,204,630</b>	<b>\$44,234,588</b>	<b>\$20,002,921</b>

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

Employer Name	Schedule of Contributions				Pension Expense		
	Statutory Required Contribution (7)	Contributions In Relation to the Statutory Required Contribution (8)	Contribution Deficiency/ (Excess) (9)	Contributions as a Percentage of Covered Employee Payroll (10)	Proportionate Share of Plan Pension Expense (11)	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions (12)	Total Employer Pension Expense (13)
Housing	\$51,456	-\$51,456	--	14.28%	\$69,624	\$11,047	\$80,671
Water	\$380,852	-\$380,852	--	19.19%	465,857	-\$10,372	455,485
Light	\$771,140	-\$771,140	--	33.89%	748,900	\$14,837	763,737
School	\$1,671,178	-\$1,709,700	-\$38,522	14.20%	1,664,374	\$40,499	1,704,873
Town of Wellesley	\$4,961,149	-\$4,961,149	--	23.00%	5,211,682	-\$56,011	5,155,671
<b>Grand Totals:</b>	<b>\$7,835,775</b>	<b>-\$7,874,297</b>	<b>-\$38,522</b>	<b>20.60%</b>	<b>\$8,160,437</b>	<b>--</b>	<b>\$8,160,437</b>

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

Employer Name	Deferred Outflows of Resources					Deferred Inflows of Resources				
	Differences Between Expected and Actual Experience (14)	Net Difference Between Projected and Actual Earnings on Pension Plan Investments (15)	Changes of Assumptions (16)	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions (17)	Total Deferred Outflows of Resources (18)	Differences Between Expected and Actual Experience (19)	Net Difference Between Projected and Actual Earnings on Pension Plan Investments (20)	Changes of Assumptions (21)	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions (22)	Total Deferred Inflows of Resources (23)
Housing	--	--	\$42,205	\$67,194	\$109,399	\$33,395	\$90,866	--	\$23,546	\$147,807
Water	--	--	282,394	39,823	322,217	223,446	607,987	--	99,326	930,759
Light	--	--	453,969	122,837	576,806	359,206	977,383	--	48,484	1,385,073
School	--	--	1,008,912	271,282	1,280,194	798,309	2,172,162	--	147,278	3,117,749
Town of Wellesley	--	--	3,159,221	41,970	3,201,191	2,499,757	6,801,728	--	224,472	9,525,957
<b>Grand Totals:</b>	--	--	<b>\$4,946,701</b>	<b>\$543,106</b>	<b>\$5,489,807</b>	<b>\$3,914,113</b>	<b>\$10,650,126</b>	--	<b>\$543,106</b>	<b>\$15,107,345</b>

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

<b>Deferred Inflows/(Outflows) Recognized In Future Pension Expense (Year Ended June 30):</b>						
<b>Employer Name</b>	<b>2019 (24)</b>	<b>2020 (25)</b>	<b>2021 (26)</b>	<b>2022 (27)</b>	<b>2023 (28)</b>	<b>Thereafter (29)</b>
Housing	\$1,182	\$2,474	-\$21,567	-\$19,478	-\$1,019	--
Water	-76,382	-67,732	-228,593	-225,566	-\$10,269	--
Light	-91,279	-77,374	-335,969	-308,262	\$4,617	--
School	-195,335	-164,434	-739,140	-748,218	\$9,572	--
Town of Wellesley	-794,481	-697,720	-2,497,314	-2,332,350	-\$2,901	--
<b>Grand Totals:</b>	<b>-\$1,156,295</b>	<b>-\$1,004,786</b>	<b>-\$3,822,583</b>	<b>-\$3,633,874</b>	<b>--</b>	<b>--</b>

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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### EXHIBIT 7

#### Notes to Required Supplementary Information

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<b>Valuation date</b>	Actuarially determined contributions for fiscal 2017 and 2018 are determined with the January 1, 2015 actuarial valuation.
<b>Actuarial cost method</b>	Entry Age Normal Cost Method
<b>Amortization method</b>	Level dollar for 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability
<b>Remaining amortization period</b>	7 years from July 1, 2015 for 2010 ERI and 15 years from July 1, 2015 for remaining unfunded liability
<b>Asset valuation method</b>	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the expected return and the actuarial investment return on a market value basis and is recognized over a five-year period with a fresh start as of January 1, 2015. The actuarial value of assets is adjusted, if necessary, to be within 20% of the market value.
<b>Actuarial assumptions:</b>	
Investment rate of return	6.75%
Discount rate	6.75%
Inflation rate	3.5%
Projected salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service for Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Cost of living adjustments	3.00% of first \$15,000 of retirement income
<b>Plan membership:</b>	
Retired participants and beneficiaries receiving benefits	407
Inactive participants entitled to a return of their employee contributions	198
Inactive participants with a vested right to a deferred or immediate benefit	7
Active participants	<u>685</u>
Total	1,297

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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### Appendix A

#### Glossary

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Definitions of certain terms *as they are used in Statement 68*; the terms may have different meanings in other contexts.

<b>Active employees:</b>	Individuals employed at the end of the reporting or measurement period, as applicable.
<b>Actual contributions:</b>	Cash contributions recognized as additions to a pension plan's fiduciary net position.
<b>Actuarial present value of projected benefit payments:</b>	Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.
<b>Actuarial valuation:</b>	The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.
<b>Actuarial valuation date:</b>	The date as of which an actuarial valuation is performed.
<b>Actuarially determined contribution:</b>	A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.
<b>Ad hoc cost-of-living adjustments (ad hoc COLAs):</b>	Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.
<b>Ad hoc postemployment benefit changes:</b>	Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.
<b>Agent employer:</b>	An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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**Agent multiple-employer defined benefit pension plan (agent pension plan):**

A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

**Allocated insurance contract:**

A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.

**Automatic cost-of-living adjustments (automatic COLAs):**

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

**Automatic postemployment benefit changes:**

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

**Closed period:**

A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

**Collective deferred outflows of resources and deferred inflows of resources related to pensions:**

Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective net pension liability.

**Collective net pension liability:**

The net pension liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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<b>Collective pension expense:</b>	Pension expense arising from certain changes in the collective net pension liability.
<b>Contributions:</b>	Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.
<b>Cost-of-living adjustments:</b>	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
<b>Cost-sharing employer:</b>	An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.
<b>Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan):</b>	A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.
<b>Covered-employee payroll:</b>	The payroll of employees that are provided with pensions through the pension plan.
<b>Deferred retirement option program (DROP):</b>	A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.
<b>Defined benefit pension plans:</b>	Pension plans that are used to provide defined benefit pensions.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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- Defined benefit pensions:** Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of Statement 68.)
- Defined contribution pension plans:** Pension plans that are used to provide defined contribution pensions.
- Defined contribution pensions:** Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.
- Discount rate:** The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:
1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of Statement 68) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.
  2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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<b>Entry age actuarial cost method:</b>	A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the <i>normal cost</i> . The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the <i>actuarial accrued liability</i> .
<b>Inactive employees:</b>	Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.
<b>Measurement period:</b>	The period between the prior and the current measurement dates.
<b>Multiple-employer defined benefit pension plan:</b>	A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.
<b>Net pension liability:</b>	The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.
<b>Nonemployer contributing entities:</b>	Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of Statement 68, employees are not considered nonemployer contributing entities.
<b>Other postemployment benefits:</b>	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits. <sup>4</sup>
<b>Pension plans:</b>	Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.
<b>Pensions:</b>	Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

## SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System

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<b>Plan members:</b>	Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).
<b>Postemployment:</b>	The period after employment.
<b>Postemployment benefit changes:</b>	Adjustments to the pension of an inactive employee.
<b>Postemployment healthcare benefits:</b>	Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.
<b>Projected benefit payments:</b>	All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.
<b>Public employee retirement system:</b>	A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.
<b>Real rate of return:</b>	The rate of return on an investment after adjustment to eliminate inflation.
<b>Service costs:</b>	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
<b>Single employer:</b>	An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.
<b>Single-employer defined benefit pension plan (single-employer pension plan):</b>	A defined benefit pension plan that is used to provide pensions to employees of only one employer.
<b>Special funding situations:</b>	<p>Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:</p> <p>The amount of contributions for which the nonemployer entity legally is responsible is <i>not</i> dependent upon one or more events or circumstances unrelated to the pensions.</p> <p>The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.</p>

**SECTION 2: Accounting Information for the Town of Wellesley Contributory Retirement System**

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**Termination benefits:**

Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

**Total pension liability:**

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement.

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