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NOTES TO SCHEDULES OF EMPLOYER ALLOCATIONS, PENSION AMOUNTS BY EMPLOYER AND AMORTIZATION OF EMPLOYERS' DEFERRED OUTFLOWS/INFLOWS DECEMBER 31, 2020

NOTE 3 – NET PENSION LIABILITY (Continued)

The total pension liability is calculated by the System's actuary and plan fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 67 in the System's notes to financial statements and required supplementary information.

Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2020 was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Under Chapter 32 of the MGL, employers are required to make the necessary contributions such that the Plan reaches full funding status by 2040. Based on those assumptions, the 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 Plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Long-Term Expected Rate of Return

The long term expected rate of return on Plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	30.5%	7.3%
International Equities	15.5	8.1%
Fixed Income	20.5	4.3%
Real Estate	9.5	8.2%
Private Equity	10.0	9.9%
Hedge Funds	11.5	9.9%
Real Assets	2.5	9.0%
Total	100.0%	

The System's policy in regard to the allocation of invested Plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan.

The annual money-weighted rate of return on investments, net of investment expense was 11.93% for the year ended December 31, 2020. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.