PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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M E M O R A N D U M

TO: Waltham Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: July 8, 2015

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made on July 1 each fiscal year. The schedule is effective in FY16 (since the amount under the prior schedule was maintained in FY16) and is acceptable under Chapter 32.

Although we are approving the schedule, we have some concerns regarding the actuarial assumptions and methodology in determining the funding schedule. First, in our August 27, 2013 memorandum, we recommended that the Board consider reducing the investment return assumption of 8.25% at the time of the next valuation. Only 7 systems are currently using an investment return assumption above 8.0% (all use an 8.25% assumption). As of January 1, 2013, PERAC reduced its "standard" investment return assumption for local system valuations to 7.75%. In our January 1, 2015 valuations, we are in discussion with a number of boards about reducing this assumption further. There are now 76 systems using an assumption less than 8.0%.

Second, the valuation uses a salary increase assumption of 3.5% which is one of the lowest used by any system. We expect that over the long term this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities.

Third, we recommend boards adopt a fully generational mortality assumption. A fully generational assumption "bakes in" future mortality improvement (longer life expectancy). Currently 30 systems have adopted such an assumption and we expect more than half will have adopted this type of assumption after all 2015 valuations are completed.

Fourth, the funding schedule adopted reflects annual increases in appropriation of $500,000 per year until the amortization of the unfunded liability is complete. A method that increases by a set amount each year is acceptable as long as the amount of appropriation exceeds that amount that could be determined using the minimum required schedule (4.0% increasing amortization to FY40). Your schedule does meet this threshold.

However, we note that the increase in total appropriation is approximately 3.1% in FY17 and grades down each year. The increase in FY32 is 2.1%. Most systems that adopt schedules with appropriation increasing by a set percentage each year, use an annual increase of 5.0% or greater. Adopting such an approach would decrease the length of your schedule.

We believe it is important to develop schedules that amortize the unfunded liability by FY35. This would provide the System more flexibility in the event of a market downturn. Although the amortization under your schedule is completed in FY33, we expect that if you used the PERAC current standard assumption set in the 2015 actuarial valuation, your unfunded liability would increase significantly and your schedule would need to be extended beyond FY35 if you were to maintain the current appropriation amounts.

The actuarial assumptions should be carefully considered at the time of the next actuarial valuation. We are available to discuss this issue with you further.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at
(617) 666-4446, extension 921.

Enc.

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Appropriation Forecast

Fiscal Year Ending	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Unfunded Liability**	Funded Ratio %**
2016	$4,888,985	$3,041,473	$13,192,171	$16,233,644	29.2	$153,671,963	56.0
2017	5,109,093	3,096,949	13,636,695	16,733,644	29.1	152,613,713	57.7
2018	5,338,620	3,152,584	14,081,060	17,233,644	28.9	151,006,174	59.6
2019	5,577,955	3,208,319	14,525,325	17,733,644	28.8	148,813,790	61.5
2020	5,827,504	3,264,093	14,969,551	18,233,644	28.6	145,978,306	63.6
2021	6,087,688	3,319,842	15,413,802	18,733,644	28.4	142,446,707	65.7
2022	6,358,947	3,375,494	15,858,150	19,233,644	28.2	138,161,538	67.9
2023	6,641,736	3,430,975	16,302,669	19,733,644	27.9	133,060,529	70.2
2024	6,936,530	3,486,205	16,747,439	20,233,644	27.6	127,076,194	72.5
2025	7,243,824	3,541,099	17,192,545	20,733,644	27.4	120,135,399	74.9
2026	7,564,132	3,595,564	17,638,080	21,233,644	27.1	112,158,885	77.4
2027	7,897,987	3,649,503	18,084,141	21,733,644	26.8	103,060,760	80.0
2028	8,245,946	3,702,814	18,530,830	22,233,644	26.5	92,747,942	82.6
2029	8,608,587	3,755,386	18,978,258	22,733,644	26.2	81,119,568	85.3
2030	8,986,512	3,807,103	19,426,541	23,233,644	25.8	68,066,334	88.1
2031	9,380,346	3,857,839	19,875,805	23,733,644	25.5	53,469,800	91.0
2032	9,790,740	3,907,462	20,326,182	24,233,644	25.1	37,201,623	94.0
2033	10,218,371	3,955,834	19,895,916	23,851,750	23.9	19,122,734	97.0
2034	10,663,942	4,002,805	0	4,002,805	3.9	0	100.0
2035	11,128,185	4,048,218	0	4,048,218	3.8	(0)	100.0
2036	11,611,862	4,091,907	0	4,091,907	3.7	0	100.0
2037	12,018,277	4,235,123	0	4,235,123	3.7	0	100.0
2038	12,438,917	4,383,353	0	4,383,353	3.7	0	100.0
2039	12,874,279	4,536,770	0	4,536,770	3.7	0	100.0
2040	13,324,879	4,695,557	0	4,695,557	3.7	0	100.0
2041	13,791,250	4,859,902	0	4,859,902	3.7	0	100.0
2042	14,273,943	5,029,998	0	5,029,998	3.7	0	100.0
2043	14,773,532	5,206,048	0	5,206,048	3.7	0	100.0
2044	15,290,605	5,388,260	0	5,388,260	3.7	0	100.0
2045	15,825,776	5,576,849	0	5,576,849	3.7	0	100.0
2046	16,379,678	5,772,038	0	5,772,038	3.7	0	100.0
2047	16,952,967	5,974,060	0	5,974,060	3.7	0	100.0

** Beginning of Fiscal Year