

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

WILLIAM T. KEEFE, *Executive Director*

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

## MEMORANDUM

TO: Easthampton Retirement Board

FROM: William T. Keefe, Executive Director

RE: Approval of Funding Schedule

DATE: November 12, 2024

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 August 1 of each fiscal year. The schedule is effective in FY25 (since the amount under the prior schedule was maintained in FY25) and is acceptable under Chapter 32.

The Board uses the market value of assets for funding purposes. Because of the low investment returns over the prior 2 years relative to the investment return assumption of 6.75%, there was a significant asset loss since the last valuation. In addition, this schedule reflects an increase in the COLA base from \$16,000 to \$18,000. As a result of both, the unfunded actuarial liability (UAL) increased significantly over the past two years.

As part of this schedule, the Board reduced the annual increase in the level of appropriation from 5.0% to 3.0%. This change reduces the level of appropriation in future years from the amounts shown in the current schedule.

All these changes result in a schedule that completes the amortization of the UAL in FY39 (the prior schedule completed the amortization of the UAL in FY28). The adopted schedule no longer has any conservatism. For the past 10 years, PERAC has recommended that retirement boards adopt funding schedules that complete the amortization of the UAL no later than FY35. Currently, the system has limited flexibility in the event of another market downturn, future liability losses, or changes in assumptions/plan provisions that increase the UAL. If the UAL increases again in the next valuation, it is extremely likely that the system will have to increase the level of appropriation, perhaps significantly. We strongly recommend that the Board adopt a schedule that completes the amortization of the UAL closer to FY35 when the next valuation is completed.



May 15, 2025

Page Two

As previously mentioned, the schedule reflects an increase in the COLA base to \$18,000. (Our understanding is that the Board approved the increase, but still needs the approval of the City Council before the increased COLA base becomes effective.) PERAC recommends that if the COLA base is increased, there should be a corresponding increase in the level of appropriation to reflect the benefit enhancement. This schedule does not reflect such an increase in the level of appropriation. In fact, as discussed previously, the schedule reflects a decrease in the level of appropriation from the prior schedule.

We are available to discuss alternative funding schedules with the Board.

If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

WTK/jfb

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Enc.

Alternative 5  
 6.85% Investment Return Assumption  
 3.0% Total Cost Increasing  
 \$18,000 COLA Base  
 Market Value of Assets

**Easthampton Retirement System  
 January 1, 2024 Actuarial Valuation**

Total cost increases 3.0% per year until FY38 with a final amortization payment in FY39

<u>Fiscal Year</u>	<u>Normal Cost</u>	<u>Net 3(8)(c)</u>	<u>Amort. of UAL</u>	<u>Total Cost</u>	<u>Unfunded Act. Liab.</u>	<u>Change in Cost</u>
2025	1,728,173	125,000	2,241,868	4,095,041	23,376,350	
2026	1,805,940	125,000	2,286,952	4,217,892	22,595,342	3.0%
2027	1,887,208	125,000	2,332,221	4,344,429	21,712,928	3.0%
2028	1,972,132	125,000	2,377,630	4,474,762	20,721,964	3.0%
2029	2,060,878	125,000	2,423,127	4,609,005	19,614,866	3.0%
2030	2,153,617	125,000	2,468,657	4,747,275	18,383,585	3.0%
2031	2,250,530	125,000	2,514,163	4,889,693	17,019,578	3.0%
2032	2,351,804	125,000	2,559,580	5,036,384	15,513,782	3.0%
2033	2,457,635	125,000	2,604,840	5,187,475	13,856,577	3.0%
2034	2,568,229	125,000	2,649,871	5,343,100	12,037,758	3.0%
2035	2,683,799	125,000	2,694,593	5,503,393	10,046,499	3.0%
2036	2,804,570	125,000	2,738,924	5,668,494	7,871,315	3.0%
2037	2,930,776	125,000	2,782,773	5,838,549	5,500,023	3.0%
2038	3,062,661	125,000	2,826,045	6,013,706	2,919,703	3.0%
2039	3,200,480	125,000	117,292	3,442,772	116,648	-42.8%
2040	3,344,502	125,000		3,469,502	0	0.8%

Appropriation payments assumed to be made on August 1 of each fiscal year  
 Total appropriation increases 3.0% each year until FY38 with a final amortization payment in FY39  
 Normal cost includes expenses of \$550,000 and is assumed to increase 4.5% per year  
 FY25 amount maintained at level of current funding schedule