M E M O R A N D U M

TO: Peabody Retirement Board

FROM: William T. Keefe, Executive Director

RE: Approval of Revised Funding Schedule

DATE: September 20, 2024

This Commission is hereby furnishing you with approval of the revised funding schedule the Board recently adopted (copy enclosed). The schedule assumes payments are made quarterly during the fiscal year. The schedule is effective in FY25 (since the amount under the prior schedule was maintained in FY25).

In our memorandums dated December 9, 2014, December 5, 2016, October 4, 2018, July 14, 2020, and February 2, 2023, we indicated that we had several concerns about the plan assumptions and methodology. We, once again, reiterate our concerns.

The revised schedule maintains the 7.75% investment return assumption used in the 2016, 2018, 2020, and 2022 valuations. We are generally recommending an assumption of 6.75% to 7.0% in our 2024 actuarial valuations. There are only 4 systems (including Peabody) that currently use an assumption of 7.75% or higher. For comparison, there are 92 systems that currently use an assumption of 7.25% or lower. Of these, 76 use an assumption of 7.0% or lower. The 7.75% assumption is outside the high end of our reasonable range (7.35%), meaning that if PERAC were your actuary, we would disclose this fact and the results of the valuation using our recommended assumptions.

The System maintained the SOA Pub-2010 mortality assumption in this valuation. However, mortality improvement is only considered until 2025. Normally this assumption is not limited.

In prior memorandums we also mentioned our concerns regarding the salary increase assumption of 3.0%. This valuation used that assumption once again. This assumption is the lowest used by any system under Chapter 32. We expect over the long term that this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities. We notice that on page 3 of your report, the loss due to salaries being higher than expected is $7.9 million.

Overall, your assumptions are significantly less conservative than the current standard PERAC assumption set, which we continue to believe is reasonable. We estimate your actuarial liability would be about 10% higher using a 7.0% investment return assumption and the PERAC standard assumptions. This would increase the unfunded actuarial liability by more than $36 million and reduce the funded ratio by more than 5.0%.

With respect to the amortization period of the unfunded actuarial liability (UAL), we would have preferred a schedule be adopted that more aggressively amortizes the UAL. The schedule completes the amortization of the UAL in FY36. For about 10 years, we have recommended that systems determine schedules to fully fund the UAL by FY35. This provides more flexibility in the event of a market downturn.

The schedule amortizes the unfunded actuarial liability on a 4.75% annually increasing basis through FY36. Under the provisions of G.L. c. 32 Section 22F, the maximum allowable increase is 4.0% for schedules that extend beyond FY30. However, since the Board could have adopted a schedule with similar payments over the next few years by having the total payments increase approximately 4.75% each year, we will allow this schedule.

We also note the normal cost is shown to decrease in the funding schedule, presumably the result of using an open group forecast. However, we note that the normal cost shown on page 10 increased about 4.6% from 2022 to 2024. In developing funding schedules, we generally assume that normal cost will increase 4.5% per year.

We are available to discuss these issues further. If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

WTK/jfb
P:\actuaria\APPROP\Approp25\peabody approvalcaveat.docx

Enc.

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 %**
2025	$5,296,718	$1,515,063	$15,551,957	$17,067,020	29.3	$148,337,300	59.5
2026	5,600,750	1,513,144	16,178,514	17,691,658	29.1	144,226,468	63.7
2027	5,921,419	1,507,983	16,942,938	18,450,921	29.0	139,071,003	67.6
2028	6,259,607	1,499,294	17,743,571	19,242,865	29.0	132,744,266	71.3
2029	6,616,241	1,486,770	18,388,044	19,874,814	28.6	125,118,928	74.8
2030	6,992,296	1,470,082	19,261,477	20,731,559	28.6	116,252,008	78.2
2031	7,388,799	1,448,881	20,176,397	21,625,278	28.5	105,816,128	81.4
2032	7,806,827	1,422,795	21,134,776	22,557,571	28.5	93,647,810	84.6
2033	8,247,515	1,391,428	22,138,677	23,530,105	28.4	79,568,918	87.8
2034	8,712,057	1,354,357	23,190,265	24,544,622	28.4	63,385,422	90.9
2035	9,201,706	1,311,131	24,291,802	25,602,933	28.3	44,886,077	93.9
2036	9,717,781	1,261,273	25,445,663	26,706,936	28.3	23,840,976	97.0
2037	10,261,670	1,204,272	0	1,204,272	1.2	0	100.0
2038	10,834,831	1,139,587	0	1,139,587	1.1	0	100.0
2039	11,322,398	1,190,869	0	1,190,869	1.1	0	100.0
2040	11,831,906	1,244,458	0	1,244,458	1.1	0	100.0
2041	12,364,342	1,300,458	0	1,300,458	1.1	0	100.0
2042	12,920,737	1,358,979	0	1,358,979	1.1	0	100.0
2043	13,502,170	1,420,133	0	1,420,133	1.1	0	100.0
2044	14,109,768	1,484,039	0	1,484,039	1.1	0	100.0
2045	14,744,707	1,550,821	0	1,550,821	1.1	0	100.0
2046	15,408,219	1,620,608	0	1,620,608	1.1	0	100.0
2047	16,101,589	1,693,535	0	1,693,535	1.1	0	100.0
2048	16,826,161	1,769,744	0	1,769,744	1.1	0	100.0
2049	17,583,338	1,849,383	0	1,849,383	1.1	0	100.0
2050	18,374,588	1,932,605	0	1,932,605	1.1	0	100.0
2051	19,201,445	2,019,572	0	2,019,572	1.1	0	100.0
2052	20,065,510	2,110,453	0	2,110,453	1.1	0	100.0
2053	20,968,457	2,205,423	0	2,205,423	1.1	0	100.0
2054	21,912,038	2,304,667	0	2,304,667	1.1	0	100.0
2055	22,898,080	2,408,377	0	2,408,377	1.1	0	100.0
2056	23,928,493	2,516,754	0	2,516,754	1.1	0	100.0

** Beginning of Fiscal Year