

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

JOHN W. PARSONS, ESQ., *Executive Director*

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MEMORANDUM

TO: Somerville Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule

DATE: November 14, 2022

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 on July 1 and is effective in FY23 (since the amount under the prior schedule was maintained in FY23) and is acceptable under Chapter 32.

The Board reduced the investment return assumption from 7.75% to 7.50% as part of this actuarial valuation. We are generally recommending an assumption of 7.0% (or lower) for our 2022 actuarial valuations. For comparison, 56 systems are currently using an assumption of 7.0% or below. There are 87 systems using an assumption of 7.25% or below.

The range we consider reasonable for our 2022 actuarial valuations is 6.0% to 7.35%. Note that your assumption is somewhat greater than the high end of our reasonable range. This means that if we were the actuary for your plan, we would not recommend that assumption and if we were to complete the work using that assumption, we would outline that the Board determined that assumption and we would disclose what the plan liabilities would be using our recommended assumption. We expect the plan's actuarial liability would increase about 5% (\$26 million) using a 7.0% investment return assumption.

The 3.0% salary increase assumption is the lowest of any Chapter 32 system. PERAC's current standard assumption (ultimate rate after 10 years of service) ranges from 4.25% for Group 1 members to 4.75% for Group 4 members. Most systems have had gains during recent years based on the PERAC standard assumption as salary increases have been less than assumed, but the salary increase assumption is a long-term assumption. We note there was a loss of \$6.1 million on salary (page 3 of report) in this valuation. There was a loss of \$15.8 million in the 2021 valuation. 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.



November 29, 2022

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We also note that although you use a current mortality base table, mortality improvement is projected only to 2025. PERAC's mortality assumption does not limit the length of mortality improvements to a specific year. Based on our experience, PERACs methodology is common practice. Although there was a gain of \$3.2 million for inactive mortality in this valuation, we noted there was a loss of about \$10 million on mortality in the 2021 valuation which used the same assumption.

We have outlined and reiterated a number of our concerns regarding funding levels and the actuarial assumptions in our last seven funding schedule approval memorandums. Although the investment return assumption was reduced in this valuation, we still recommend a lower assumption. Overall, your actuarial assumption set is among the least conservative of any Chapter 32 system.

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.

JWP/jfb

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Appropriation Forecast

Fiscal Year	Employee Payroll*	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Funded Ratio %**
2023	\$93,793,672	\$8,624,580	\$3,018,219	\$14,144,165	\$17,162,384	18.3	77.3
2024	\$97,545,419	\$9,067,464	\$3,037,443	\$14,776,779	\$17,814,222	18.3	78.7
2025	\$100,471,781	\$9,440,325	\$3,024,015	\$15,072,315	\$18,096,330	18.0	80.4
2026	\$103,485,935	\$9,827,397	\$3,007,049	\$15,373,761	\$18,380,810	17.8	82.2
2027	\$106,590,513	\$10,229,198	\$2,986,343	\$15,681,237	\$18,667,580	17.5	84.1
2028	\$109,788,228	\$10,646,261	\$2,961,688	\$15,994,861	\$18,956,549	17.3	86.0
2029	\$113,081,875	\$11,079,143	\$2,932,866	\$16,314,758	\$19,247,624	17.0	88.1
2030	\$116,474,331	\$11,528,415	\$2,899,649	\$16,641,054	\$19,540,703	16.8	90.2
2031	\$119,968,561	\$11,994,673	\$2,861,800	\$16,973,875	\$19,835,675	16.5	92.5
2032	\$123,567,618	\$12,478,530	\$2,819,070	\$17,313,352	\$20,132,422	16.3	94.9
2033	\$127,274,647	\$12,980,624	\$2,771,201	\$17,659,619	\$20,430,820	16.1	97.4
2034	\$131,092,886	\$13,501,613	\$2,717,922	\$0	\$2,717,922	2.1	100.0
2035	\$135,025,673	\$14,042,179	\$2,658,952	\$0	\$2,658,952	2.0	100.0
2036	\$139,076,443	\$14,603,027	\$2,593,999	\$0	\$2,593,999	1.9	100.0
2037	\$143,248,736	\$15,041,117	\$2,671,819	\$0	\$2,671,819	1.9	100.0
2038	\$147,546,198	\$15,492,351	\$2,751,973	\$0	\$2,751,973	1.9	100.0
2039	\$151,972,584	\$15,957,121	\$2,834,532	\$0	\$2,834,532	1.9	100.0
2040	\$156,531,762	\$16,435,835	\$2,919,568	\$0	\$2,919,568	1.9	100.0
2041	\$161,227,715	\$16,928,910	\$3,007,155	\$0	\$3,007,155	1.9	100.0
2042	\$166,064,546	\$17,436,777	\$3,097,370	\$0	\$3,097,370	1.9	100.0
2043	\$171,046,482	\$17,959,881	\$3,190,291	\$0	\$3,190,291	1.9	100.0
2044	\$176,177,877	\$18,498,677	\$3,286,000	\$0	\$3,286,000	1.9	100.0
2045	\$181,463,213	\$19,053,637	\$3,384,580	\$0	\$3,384,580	1.9	100.0
2046	\$186,907,110	\$19,625,247	\$3,486,117	\$0	\$3,486,117	1.9	100.0
2047	\$192,514,323	\$20,214,004	\$3,590,701	\$0	\$3,590,701	1.9	100.0
2048	\$198,289,753	\$20,820,424	\$3,698,422	\$0	\$3,698,422	1.9	100.0
2049	\$204,238,445	\$21,445,037	\$3,809,374	\$0	\$3,809,374	1.9	100.0
2050	\$210,365,599	\$22,088,388	\$3,923,656	\$0	\$3,923,656	1.9	100.0
2051	\$216,676,567	\$22,751,039	\$4,041,365	\$0	\$4,041,365	1.9	100.0
2052	\$223,176,863	\$23,433,571	\$4,162,606	\$0	\$4,162,606	1.9	100.0
2053	\$229,872,169	\$24,136,578	\$4,287,484	\$0	\$4,287,484	1.9	100.0
2054	\$236,768,334	\$24,860,675	\$4,416,109	\$0	\$4,416,109	1.9	100.0

* Calendar basis

** Beginning of Fiscal Year