

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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MEMORANDUM

TO: Watertown Retirement Board

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

RE: Approval of Appropriation for FY21

DATE: November 26, 2019

This Commission is hereby furnishing you with approval of the FY21 appropriation under the revised funding schedule the Board recently adopted (copy enclosed). The schedule is effective in FY20 (since the amount under the prior schedule was maintained in FY19). This schedule is approved only through FY21, as the System is essentially projected to be fully funded at that point. We will use the results of your January 1, 2020 actuarial valuation to approve the FY22 appropriation.

Although we are approving the FY21 appropriation, we have some concerns regarding the plan assumptions. The actuarial assumptions used are among the least conservative of any Chapter 32 system. The System reduced the investment return assumption from 7.9% to 7.8% in this valuation. Only one system uses a greater assumption (8.0%). We have generally recommended an assumption between 7.0% and 7.25% for our 2019 local system valuations, with the most common recommendation being 7.25%. For comparison, there are 34 systems currently using an assumption of 7.25% or lower. There are 64 systems using an assumption of 7.30% - 7.50%. Your 7.90% assumption is outside the high end of our reasonable range.

Likewise the salary increase assumption is among the lowest in the state. Only 9 systems use an assumption of 3.5% or lower in valuations. We noted last year that page 3 of the 2018 valuation report showed a \$1 million loss on the salary assumption (pay was greater than assumed) despite the current union contracts with COLAs of 2.25% and 2.0%. This year's report shows a \$735,000 loss on salary.

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.

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Appropriation Forecast

Fiscal Year	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Unfunded Accrued Liability	Funded Ratio %**
2020	\$3,033,932	\$970,175	\$7,330,781	\$8,300,956	24.5	\$24,573,231	86.6
2021	\$3,189,637	\$973,320	\$13,772,422	\$14,745,742	41.8	\$13,703,907	94.0
2022	\$3,352,944	\$975,164	\$240,675	\$1,215,839	3.3	\$455,438	99.8
2023	\$3,524,213	\$975,598	\$250,302	\$1,225,900	3.2	\$241,077	99.9
2024	\$3,703,818	\$974,507	\$0	\$974,507	2.5	\$0	100.0
2025	\$3,892,153	\$971,767	\$0	\$971,767	2.4	\$0	100.0
2026	\$4,089,628	\$967,250	\$0	\$967,250	2.3	\$0	100.0
2027	\$4,296,674	\$960,815	\$0	\$960,815	2.2	\$0	100.0
2028	\$4,513,741	\$952,319	\$0	\$952,319	2.1	\$0	100.0
2029	\$4,741,298	\$941,606	\$0	\$941,606	1.9	\$0	100.0
2030	\$4,979,837	\$928,511	\$0	\$928,511	1.8	\$0	100.0
2031	\$5,229,874	\$912,863	\$0	\$912,863	1.7	\$0	100.0
2032	\$5,491,946	\$894,477	\$0	\$894,477	1.6	\$0	100.0
2033	\$5,766,615	\$873,160	\$0	\$873,160	1.5	\$0	100.0
2034	\$6,054,472	\$848,706	\$0	\$848,706	1.4	\$0	100.0
2035	\$6,356,130	\$820,899	\$0	\$820,899	1.3	\$0	100.0
2036	\$6,672,233	\$789,509	\$0	\$789,509	1.2	\$0	100.0
2037	\$6,939,123	\$821,089	\$0	\$821,089	1.2	\$0	100.0
2038	\$7,216,688	\$853,933	\$0	\$853,933	1.2	\$0	100.0
2039	\$7,505,355	\$888,090	\$0	\$888,090	1.2	\$0	100.0
2040	\$7,805,569	\$923,614	\$0	\$923,614	1.2	\$0	100.0
2041	\$8,117,792	\$960,558	\$0	\$960,558	1.2	\$0	100.0
2042	\$8,442,504	\$998,981	\$0	\$998,981	1.2	\$0	100.0
2043	\$8,780,204	\$1,038,940	\$0	\$1,038,940	1.2	\$0	100.0
2044	\$9,131,412	\$1,080,498	\$0	\$1,080,498	1.2	\$0	100.0
2045	\$9,496,669	\$1,123,717	\$0	\$1,123,717	1.2	\$0	100.0
2046	\$9,876,535	\$1,168,666	\$0	\$1,168,666	1.2	\$0	100.0
2047	\$10,271,597	\$1,215,413	\$0	\$1,215,413	1.2	\$0	100.0
2048	\$10,682,461	\$1,264,029	\$0	\$1,264,029	1.2	\$0	100.0
2049	\$11,109,759	\$1,314,591	\$0	\$1,314,591	1.2	\$0	100.0
2050	\$11,554,150	\$1,367,174	\$0	\$1,367,174	1.2	\$0	100.0
2051	\$12,016,316	\$1,421,861	\$0	\$1,421,861	1.2	\$0	100.0

** Beginning of Fiscal Year