M E M O R A N D U M

TO: Watertown Retirement Board

FROM: William T. Keefe, Executive Director

RE: Approval of Funding Schedule

DATE: August 4, 2026

This Commission is hereby furnishing you with approval of the funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made on July 1 of each fiscal year. The schedule is effective in FY27 and is acceptable under Chapter 32.

As of January 1, 2026, the plan has an unfunded actuarial liability (UAL) of $11.0 million and a funded ratio of 96.3%. However, on a market value basis, the unfunded actuarial liability is $6.3 million and the funded ratio is 97.9%. This schedule increases the appropriation from the Board's current schedule for FY27. There is a final payment in FY28 to retire the UAL. Thereafter, the schedule payments are only normal cost.

In addition, as we have indicated in numerous past approval letters, we continue to have concerns regarding the plan assumptions. The actuarial assumptions used are among the least conservative of any Chapter 32 system. The System maintained the 7.65% investment return assumption used in the 2024 and 2025 valuations. We are generally recommending an assumption of 6.75% to 7.25% for our 2026 local system valuations. For comparison, there are 77 systems currently using an assumption of 7.0% or lower. There are 92 systems using an assumption of 7.25% or lower. Your 7.65% assumption is significantly outside the high end of PERAC's reasonable range (7.40%) as of January 1, 2026. If PERAC were the actuary for your plan, we would need to disclose the principal valuation results using our recommended assumption.

Likewise, the salary increase assumption is among the lowest in the state. Only a handful of other systems use an assumption of 3.5% or lower in valuations.

Finally, the mortality assumption projects generational mortality improvement only though 2026. This is not the case for most Massachusetts public plans and it is our understanding that this is not common practice for other public plans.

For comparison, we estimate that using a 7.0% investment return assumption and our standard PERAC salary increase and mortality assumption, the actuarial liability would increase by more than $27.5 million. On this basis, there would be an UAL of more than $38.5 million.

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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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 Accrued Liability	Funded Ratio %**
2027	$5,200,771	$800,028	$11,280,657	$12,080,685	21.7	$10,989,636	96.3
2028	$5,483,788	$754,227	$143,010	$897,237	1.5	$126,152	100.0
2029	$5,781,126	$703,483	$0	$703,483	1.2	$0	100.0
2030	$6,093,476	$647,471	$0	$647,471	1.0	$0	100.0
2031	$6,421,565	$585,854	$0	$585,854	0.9	$0	100.0
2032	$6,766,151	$518,270	$0	$518,270	0.8	$0	100.0
2033	$7,128,030	$444,343	$0	$444,343	0.6	$0	100.0
2034	$7,508,033	$363,673	$0	$363,673	0.5	$0	100.0
2035	$7,907,032	$275,838	$0	$275,838	0.4	$0	100.0
2036	$8,325,937	$180,394	$0	$180,394	0.2	$0	100.0
2037	$8,658,975	$187,609	$0	$187,609	0.2	$0	100.0
2038	$9,005,334	$195,114	$0	$195,114	0.2	$0	100.0
2039	$9,365,547	$202,918	$0	$202,918	0.2	$0	100.0
2040	$9,740,169	$211,035	$0	$211,035	0.2	$0	100.0
2041	$10,129,776	$219,477	$0	$219,477	0.2	$0	100.0
2042	$10,534,967	$228,256	$0	$228,256	0.2	$0	100.0
2043	$10,956,365	$237,386	$0	$237,386	0.2	$0	100.0
2044	$11,394,620	$246,881	$0	$246,881	0.2	$0	100.0
2045	$11,850,405	$256,757	$0	$256,757	0.2	$0	100.0
2046	$12,324,421	$267,027	$0	$267,027	0.2	$0	100.0
2047	$12,817,398	$277,708	$0	$277,708	0.2	$0	100.0
2048	$13,330,094	$288,816	$0	$288,816	0.2	$0	100.0
2049	$13,863,298	$300,369	$0	$300,369	0.2	$0	100.0
2050	$14,417,830	$312,384	$0	$312,384	0.2	$0	100.0
2051	$14,994,543	$324,879	$0	$324,879	0.2	$0	100.0
2052	$15,594,324	$337,874	$0	$337,874	0.2	$0	100.0
2053	$16,218,097	$351,389	$0	$351,389	0.2	$0	100.0
2054	$16,866,821	$365,445	$0	$365,445	0.2	$0	100.0
2055	$17,541,494	$380,062	$0	$380,062	0.2	$0	100.0
2056	$18,243,154	$395,265	$0	$395,265	0.2	$0	100.0
2057	$18,972,880	$411,075	$0	$411,075	0.2	$0	100.0
2058	$19,731,795	$427,519	$0	$427,519	0.2	$0	100.0

** Beginning of Fiscal Year