

## COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chair WILLIAM T. KEEFE, Executive Director

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## MEMORANDUM

TO: Watertown Retirement Board

FROM: William T. Keefe, Executive Director

RE: Approval of Funding Schedule

DATE: July 15, 2025

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 FY26 and is acceptable under Chapter 32.

As of January 1, 2025, the plan has an unfunded actuarial liability (UAL) of \$5.9 million and a funded ratio of 97.9%. However, on a market value basis, the unfunded actuarial liability is \$14.7 million and the funded ratio is 94.8%. This schedule increases the appropriation from the Board's current schedule for FY26 and FY27 to retire the UAL. Thereafter, this schedule has level payments of \$1.13 million until 2037 and increasing thereafter to build the system's surplus.

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 valuation. We have generally recommended an assumption of 6.50% to 7.0% for our 2025 local system valuations. For comparison, there are 78 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, 2025. 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 2025. 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.





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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 \$26 million. On this basis there would be a UAL of more than \$32 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.

WTK/jfb

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Enc.

## **Appropriation Forecast**

Fiscal		Employer	Amortization	Employer	Employer	Unfunded	
Year	Employee	Normal Cost	Payments	Total Cost	Total Cost	Accrued	Funded
<b>Ending</b>	Contribution	with Interest	with Interest	with Interest	% of Payroll	<u>Liability</u>	Ratio %**
2026	\$4,763,833	\$809,756	\$3,190,058	\$3,999,814	7.9	\$5,922,657	97.9
2027	\$5,005,573	\$789,038	\$3,318,153	\$4,107,191	7.8	\$3,063,396	98.9
2028	\$5,259,030	\$765,366	\$367,068	\$1,132,434	2.1	(\$147,623)	100.1
2029	\$5,524,755	\$738,539	\$393,895	\$1,132,434	2.0	(\$554,065)	100.2
2030	\$5,803,324	\$708,340	\$424,094	\$1,132,434	1.9	(\$1,020,479)	100.3
2031	\$6,095,338	\$674,544	\$457,890	\$1,132,434	1.8	(\$1,555,083)	100.5
2032	\$6,401,428	\$636,911	\$495,504	\$1,132,415	1.8	(\$2,166,965)	100.7
2033	\$6,722,253	\$595,188	\$537,143	\$1,132,331	1.7	(\$2,866,148)	100.9
2034	\$7,058,501	\$549,108	\$582,987	\$1,132,095	1.6	(\$3,663,643)	101.1
2035	\$7,410,894	\$498,390	\$633,176	\$1,131,566	1.6	(\$4,571,498)	101.3
2036	\$7,780,185	\$442,735	\$687,788	\$1,130,523	1.5	(\$5,602,831)	101.6
2037	\$8,167,161	\$381,831	\$746,828	\$1,128,659	1.5	(\$6,771,852)	101.9
2038	\$8,493,848	\$397,104	\$810,199	\$1,207,303	1.5	(\$8,093,859)	102.2
2039	\$8,833,602	\$412,988	\$877,682	\$1,290,670	1.5	(\$9,585,218)	102.6
2040	\$9,186,946	\$429,508	\$948,914	\$1,378,422	1.6	(\$11,263,312)	102.9
2041	\$9,554,423	\$446,688	\$1,023,365	\$1,470,053	1.6	(\$13,146,462)	103.3
2042	\$9,936,600	\$464,556	\$1,100,317	\$1,564,873	1.7	(\$15,253,818)	103.7
2043	\$10,334,064	\$483,138	\$1,178,849	\$1,661,987	1.7	(\$17,605,227)	104.2
2044	\$10,747,427	\$502,464	\$1,257,829	\$1,760,293	1.7	(\$20,221,058)	104.6
2045	\$11,177,324	\$522,562	\$1,335,910	\$1,858,472	1.7	(\$23,122,021)	105.1
2046	\$11,624,417	\$543,465	\$1,411,547	\$1,955,012	1.8	(\$26,328,963)	105.6
2047	\$12,089,394	\$565,203	\$1,483,013	\$2,048,216	1.8	(\$29,862,658)	106.1
2048	\$12,572,969	\$587,811	\$1,548,447	\$2,136,258	1.8	(\$33,743,615)	106.5
2049	\$13,075,888	\$611,324	\$1,605,900	\$2,217,224	1.8	(\$37,991,904)	107.0
2050	\$13,598,924	\$635,777	\$1,653,414	\$2,289,191	1.8	(\$42,627,037)	107.4
2051	\$14,142,881	\$661,208	\$1,689,100	\$2,350,308	1.7	(\$47,667,906)	107.9
2052	\$14,708,596	\$687,656	\$1,711,232	\$2,398,888	1.7	(\$53,132,816)	108.3
2053	\$15,296,940	\$715,162	\$1,718,353	\$2,433,515	1.7	(\$59,039,618)	108.7
2054	\$15,908,817	\$743,769	\$1,709,366	\$2,453,135	1.6	(\$65,405,956)	109.0
2055	\$16,545,170	\$773,520	\$1,683,631	\$2,457,151	1.6	(\$72,249,645)	109.4
2056	\$17,206,977	\$804,460	\$1,641,034	\$2,445,494	1.5	(\$79,589,172)	109.7
2057	\$17,895,256	\$836,639	\$1,582,036	\$2,418,675	1.4	(\$87,444,316)	110.0

<sup>\*\*</sup> Beginning of Fiscal Year