

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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

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## MEMORANDUM

TO: Watertown Retirement Board

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

RE: Approval of Funding Schedule

DATE: November 8, 2023

This Commission is hereby furnishing you with approval of the funding schedule you recently adopted (copy enclosed). The schedule is effective in FY24 (the FY24 amount was maintained from the prior schedule) and FY25 only and is acceptable under Chapter 32.

As of January 1, 2023, the plan remains slightly overfunded with a funded ratio of 101.3%. However, on a market value basis, the unfunded actuarial liability is \$20.5 million and the funded ratio is 92.1%. The prior schedule, which we did not recommend, had no appropriation for FY24 and beyond. This schedule reinstated appropriations beginning in FY25 due to plan losses during 2022. As we have indicated in the past, we do not recommend reducing the appropriation drastically when a system attains 100% funding. Instead, we recommend a more gradual reduction and/or an appropriation of at least the normal cost until the plan is more significantly overfunded, to mitigate potential investment and/or demographic losses. This schedule maintains payments that are less than the 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 reduced the investment return assumption to 7.65% (from the 7.70% investment return assumption used in the 2022 valuation). We have generally recommended an assumption of 6.75% to 7.0% for our 2023 local system valuations. For comparison, there are 72 systems currently using an assumption of 7.0% or lower. There are 90 systems using an assumption of 7.25% or lower. Your 7.65% assumption is significantly outside the high end of PERAC's reasonable range (7.35%) as of January 1, 2023. 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.



December 5, 2023

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Finally, the mortality assumption projects generational mortality improvement only through 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.

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 \$24 million. On this basis there would be an unfunded actuarial liability (UAL) of more than \$20 million. On this basis we would expect the FY24 appropriation to be over \$3 million (normal cost plus amortization of UAL).

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 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 %**
2024	\$3,634,065	\$790,993	(\$790,993)	(\$0)	0.0	(\$3,520,712)	101.3
2025	\$3,822,876	\$777,553	(\$246,279)	\$531,274	1.3	(\$2,949,417)	101.1
2026	\$4,020,977	\$761,773	(\$256,130)	\$505,643	1.2	(\$2,921,237)	101.1
2027	\$4,228,810	\$743,485	(\$266,376)	\$477,109	1.1	(\$2,880,749)	101.1
2028	\$4,446,836	\$722,516	(\$277,031)	\$445,485	1.0	(\$2,826,605)	101.0
2029	\$4,675,538	\$698,680	(\$288,112)	\$410,568	0.8	(\$2,757,339)	101.0
2030	\$4,915,421	\$671,781	(\$299,636)	\$372,145	0.7	(\$2,671,353)	100.9
2031	\$5,167,014	\$641,612	(\$311,622)	\$329,990	0.6	(\$2,566,913)	100.9
2032	\$5,430,870	\$607,955	(\$324,087)	\$283,868	0.5	(\$2,442,131)	100.8
2033	\$5,707,567	\$570,579	(\$337,050)	\$233,529	0.4	(\$2,294,958)	100.8
2034	\$5,997,710	\$529,239	(\$350,532)	\$178,707	0.3	(\$2,123,165)	100.7
2035	\$6,301,932	\$483,680	(\$364,553)	\$119,127	0.2	(\$1,924,337)	100.6
2036	\$6,620,897	\$433,629	(\$379,136)	\$54,493	0.1	(\$1,695,847)	100.5
2037	\$6,955,295	\$378,800	(\$394,301)	(\$15,501)	0.0	(\$1,434,851)	100.4
2038	\$7,233,506	\$393,952	(\$410,073)	(\$16,121)	0.0	(\$1,138,259)	100.3
2039	\$7,522,847	\$409,710	(\$426,476)	(\$16,766)	0.0	(\$802,723)	100.2
2040	\$7,823,761	\$426,099	(\$443,535)	(\$17,436)	0.0	(\$424,615)	100.1
2041	\$8,136,711	\$443,143	\$0	\$443,143	0.6	\$0	100.0
2042	\$8,462,179	\$460,868	\$0	\$460,868	0.6	\$0	100.0
2043	\$8,800,667	\$479,303	\$0	\$479,303	0.6	\$0	100.0
2044	\$9,152,693	\$498,475	\$0	\$498,475	0.6	\$0	100.0
2045	\$9,518,801	\$518,414	\$0	\$518,414	0.6	\$0	100.0
2046	\$9,899,553	\$539,151	\$0	\$539,151	0.6	\$0	100.0
2047	\$10,295,535	\$560,717	\$0	\$560,717	0.6	\$0	100.0
2048	\$10,707,357	\$583,146	\$0	\$583,146	0.6	\$0	100.0
2049	\$11,135,651	\$606,471	\$0	\$606,471	0.6	\$0	100.0
2050	\$11,581,077	\$630,730	\$0	\$630,730	0.6	\$0	100.0
2051	\$12,044,320	\$655,959	\$0	\$655,959	0.6	\$0	100.0
2052	\$12,526,093	\$682,198	\$0	\$682,198	0.6	\$0	100.0
2053	\$13,027,136	\$709,486	\$0	\$709,486	0.6	\$0	100.0
2054	\$13,548,222	\$737,865	\$0	\$737,865	0.6	\$0	100.0
2055	\$14,090,151	\$767,380	\$0	\$767,380	0.6	\$0	100.0

\*\* Beginning of Fiscal Year