

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

WILLIAM T. KEEFE, *Executive Director*

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

MEMORANDUM

TO: Watertown Retirement Board

FROM: William T. Keefe, Executive Director

RE: Approval of Funding Schedule

DATE: November 21, 2024

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

As of January 1, 2024, the plan remains slightly overfunded with a funded ratio of 100.2%. However, on a market value basis, the unfunded actuarial liability is \$13.2 million and the funded ratio is 95.1%. This schedule increases the appropriation from the Board's current schedule. This schedule has level payments of \$1.15 million until 2042 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 investment return assumption to 7.65% used in the 2023 valuation. We have generally recommended an assumption of 6.75% to 7.15% for our 2024 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 (7.35%) as of January 1, 2024. 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 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.



February 5, 2025

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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 \$25 million. On this basis there would be an unfunded actuarial liability (UAL) of more than \$24 million. On this basis we would expect the FY25 appropriation to be approximately \$2.9 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.

WTK/jfb

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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 %**
2025	\$3,961,976	\$864,687	\$285,313	\$1,150,000	2.7	(\$651,742)	100.2
2026	\$4,167,763	\$850,191	\$299,809	\$1,150,000	2.6	(\$1,017,825)	100.4
2027	\$4,383,673	\$833,151	\$316,849	\$1,150,000	2.5	(\$1,427,882)	100.5
2028	\$4,610,188	\$813,388	\$336,612	\$1,150,000	2.4	(\$1,888,029)	100.7
2029	\$4,847,811	\$790,710	\$359,290	\$1,150,000	2.3	(\$2,394,826)	100.8
2030	\$5,097,067	\$764,917	\$385,083	\$1,150,000	2.2	(\$2,964,806)	101.0
2031	\$5,358,507	\$735,796	\$414,204	\$1,150,000	2.1	(\$3,606,156)	101.2
2032	\$5,632,706	\$703,121	\$446,879	\$1,150,000	2.0	(\$4,327,917)	101.4
2033	\$5,920,268	\$666,655	\$483,345	\$1,150,000	2.0	(\$5,140,068)	101.7
2034	\$6,221,823	\$626,146	\$523,854	\$1,150,000	1.9	(\$6,053,604)	101.9
2035	\$6,538,030	\$581,330	\$568,670	\$1,150,000	1.8	(\$7,080,634)	102.2
2036	\$6,869,578	\$531,927	\$618,073	\$1,150,000	1.7	(\$8,234,475)	102.5
2037	\$7,217,189	\$477,642	\$672,358	\$1,150,000	1.7	(\$9,529,768)	102.9
2038	\$7,505,877	\$496,747	\$653,253	\$1,150,000	1.6	(\$10,982,589)	103.2
2039	\$7,806,112	\$516,617	\$633,383	\$1,150,000	1.5	(\$12,525,984)	103.6
2040	\$8,118,356	\$537,282	\$612,718	\$1,150,000	1.5	(\$14,166,059)	104.0
2041	\$8,443,091	\$558,773	\$591,227	\$1,150,000	1.4	(\$15,909,353)	104.4
2042	\$8,780,814	\$581,124	\$568,876	\$1,150,000	1.4	(\$17,762,874)	104.7
2043	\$9,132,047	\$604,369	\$0	\$604,369	0.7	(\$19,734,129)	105.1
2044	\$9,497,329	\$628,544	\$0	\$628,544	0.7	(\$21,243,790)	105.3
2045	\$9,877,222	\$653,686	\$0	\$653,686	0.7	(\$22,868,940)	105.5
2046	\$10,272,311	\$679,833	\$0	\$679,833	0.7	(\$24,618,414)	105.7
2047	\$10,683,203	\$707,026	\$0	\$707,026	0.7	(\$26,501,723)	105.9
2048	\$11,110,531	\$735,307	\$0	\$735,307	0.7	(\$28,529,105)	106.0
2049	\$11,554,953	\$764,720	\$0	\$764,720	0.7	(\$30,711,581)	106.2
2050	\$12,017,151	\$795,308	\$0	\$795,308	0.7	(\$33,061,017)	106.3
2051	\$12,497,837	\$827,121	\$0	\$827,121	0.7	(\$35,590,185)	106.4
2052	\$12,997,750	\$860,206	\$0	\$860,206	0.7	(\$38,312,834)	106.5
2053	\$13,517,660	\$894,614	\$0	\$894,614	0.7	(\$41,243,766)	106.6
2054	\$14,058,367	\$930,398	\$0	\$930,398	0.7	(\$44,398,914)	106.7
2055	\$14,620,701	\$967,614	\$0	\$967,614	0.7	(\$47,795,431)	106.8
2056	\$15,205,529	\$1,006,319	\$0	\$1,006,319	0.7	(\$51,451,781)	106.9

** Beginning of Fiscal Year