

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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## MEMORANDUM

TO: Melrose Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: February 25, 2016

This Commission is hereby furnishing you with approval of the revised 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 FY16 (since the amount under the prior schedule was maintained in FY16) and is acceptable under Chapter 32.

The funding schedule is effective only through FY18. The schedule shows a decrease in the level of appropriation from FY18 to FY19. This reduction is the result of the treatment of deferred investment gains. Pursuant to Chapter 32, Section 22F, the appropriation in one fiscal year cannot be less than the appropriation for the prior fiscal year. We expect that when the next funding schedule is adopted, the amount for FY19 in that schedule will conform to the provisions of Chapter 32.

We note that the Board adopted a 7.875% investment return assumption which is more conservative than the prior assumption of 8.0%. For comparison, 68 systems have adopted an assumption of 7.75% or less. Of these, 16 have adopted an assumption of 7.50% or less. We expect a number of systems to further reduce this assumption in 2016 valuations.

We note the System adopted a fully generational mortality assumption. We began recommending generational mortality in our 2015 valuations. To date, 55 systems have adopted such an assumption. We expect 80 or more will have adopted a generational assumption after all 2016 valuations have been completed.

Finally, we note that the current funding schedule completes the amortization of the unfunded actuarial liability (UAL) in FY37. Although this is allowable, our recent emphasis is for systems to work to establish funding schedules that complete the amortization of the UAL by FY35 at the latest. This allows systems some flexibility in



the event of a market downturn. Completing the amortization of unfunded liability was difficult for many systems while recognizing the 2008 investment loss. Since that loss was completely recognized a few years ago, we believe establishing a schedule that completes the amortization of the UAL by FY35 should be a top priority. Only 18 systems have amortization schedules that extend beyond FY35. We would be happy to discuss alternative ways a FY35 schedule could be accomplished.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

Enc.

**MELROSE RETIREMENT SYSTEM**  
**FUNDING SCHEDULE with 3(8)(C) - 21 years: 3.93 % amortization**  
**Generational Mortality, Scale BB, 7.875%**

| Fiscal Year | Normal Cost | Unfunded Liability | Funding Amortization of UAAL | Net 3(8)(c) Payments | Schedule Contribution |
|-------------|-------------|--------------------|------------------------------|----------------------|-----------------------|
| 2017        | 1,226,826   | 62,157,791         | 4,501,012                    | 81,486               | 5,809,324             |
| 2018        | 1,282,033   | 62,197,250         | 4,663,511                    | 81,486               | 6,027,030             |
| 2019        | 1,339,725   | 62,064,522         | 4,575,544                    | 81,486               | 5,996,755             |
| 2020        | 1,400,012   | 62,016,234         | 4,641,727                    | 81,486               | 6,123,226             |
| 2021        | 1,463,013   | 61,892,749         | 4,824,147                    | 81,486               | 6,368,646             |
| 2022        | 1,528,848   | 61,562,755         | 5,013,736                    | 81,486               | 6,624,070             |
| 2023        | 1,597,647   | 61,002,254         | 5,210,776                    | 81,486               | 6,889,908             |
| 2024        | 1,669,541   | 60,185,057         | 5,415,559                    | 81,486               | 7,166,586             |
| 2025        | 1,744,670   | 59,082,596         | 5,628,391                    | 81,486               | 7,454,547             |
| 2026        | 1,823,180   | 57,663,724         | 5,849,586                    | 81,486               | 7,754,253             |
| 2027        | 1,905,223   | 55,894,501         | 6,079,475                    | 81,486               | 8,066,185             |
| 2028        | 1,990,958   | 53,737,959         | 6,318,399                    | 81,486               | 8,390,843             |
| 2029        | 2,080,551   | 51,153,851         | 6,566,712                    | 81,486               | 8,728,749             |
| 2030        | 2,174,176   | 48,098,376         | 6,824,783                    | 81,486               | 9,080,446             |
| 2031        | 2,272,014   | 44,523,888         | 7,092,997                    | 81,486               | 9,446,498             |
| 2032        | 2,374,255   | 40,378,573         | 7,371,752                    | 81,486               | 9,827,493             |
| 2033        | 2,481,096   | 35,606,108         | 7,661,462                    | 81,486               | 10,224,045            |
| 2034        | 2,592,746   | 30,145,287         | 7,962,558                    | 81,486               | 10,636,789            |
| 2035        | 2,709,419   | 23,929,619         | 8,275,486                    | 81,486               | 11,066,391            |
| 2036        | 2,831,343   | 16,886,896         | 8,600,713                    | 81,486               | 11,513,542            |
| 2037        | 2,958,753   | 8,938,721          | 8,938,721                    | 81,486               | 11,978,960            |

**Amortization of Unfunded Liability as of July 1, 2016**

| Year | Type        | Original Amort. Amount | Percentage Increasing | Original # of Years | Current Amort. Amount | Years Remaining |
|------|-------------|------------------------|-----------------------|---------------------|-----------------------|-----------------|
| 2002 | ERI         | 256,851                | 0.00%                 | 17                  | 256,851               | 2               |
| 2003 | ERI         | 109,339                | 0.00%                 | 17                  | 109,339               | 3               |
| 2017 | Fresh Start | 4,134,822              | 3.93%                 | 21                  | 4,134,822             | 21              |