PERAC AUDIT REPORT

Milton Contributory Retirement System

JAN. 1, 2012 - DEC. 31, 2014

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. McCARTHY | JENNIFER F. SULLIVAN

October 18, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Milton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Michael Pasternak, Scott Henderson, and Kevin McCarthy who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDING AND RECOMMENDATION

Member Contributions:
PERAC auditors sampled members' contributions to determine that the correct rates are being assigned and withheld, and that the additional 2% deduction is withheld from those members who make over $30,000 annually and were hired after January 1, 1979. Our review of the Milton Housing Authority's Payroll indicated that two Milton Firefighters, who were already members of the retirement system, were contributing to Social Security instead of the Milton Retirement System.

Recommendation: The Housing Authority should be contacted to begin withholding contributions.

Board Response:
The Milton Retirement Board is aware of the finding and concurs. We will work proactively with the member unit, the Milton Housing Authority, where the situation occurred to address the issue.

FINAL DETERMINATION:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	$231,517	$320,237	$171,808
PRIT Cash Fund	630,869	437,859	358,838
PRIT Core Fund	107,655,475	100,536,344	88,638,460
Total	$108,517,861	$101,294,439	$89,169,105
Fund Balances:			
Annuity Savings Fund	$20,990,803	$19,695,472	$18,457,100
Annuity Reserve Fund	5,679,334	5,677,250	5,873,339
Pension Fund	1,448,267	1,625,073	1,646,174
Military Service Fund	4,635	4,630	4,626
Expense Fund	0	0	0
Pension Reserve Fund	80,394,822	74,292,014	63,187,866
Total	$108,517,861	$101,294,439	$89,169,105

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	$17,767,805	$5,937,618	$1,806,327	$4,621	$0	$54,217,917	$79,734,288
Receipts	1,838,094	174,452	4,994,401	5	588,625	10,048,017	17,643,593
Interfund Transfers	(710,818)	707,951	1,080,935	0	0	(1,078,068)	0
Disbursements	(437,981)	(946,682)	(6,235,488)	0	(588,625)	0	(8,208,776)
Ending Balance (2012)	18,457,100	5,873,339	1,646,174	4,626	0	63,187,866	89,169,105
Receipts	2,006,726	171,208	5,043,849	5	672,940	12,404,026	20,298,754
Interfund Transfers	(643,505)	642,989	1,300,394	0	0	(1,299,879)	0
Disbursements	(124,849)	(1,010,287)	(6,365,344)	0	(672,940)	0	(8,173,420)
Ending Balance (2013)	19,695,472	5,677,250	1,625,073	4,630	0	74,292,014	101,294,439
Receipts	2,310,353	167,514	5,292,155	5	704,720	7,221,548	15,696,295
Interfund Transfers	(860,689)	860,689	1,118,740	0	0	(1,118,740)	0
Disbursements	(154,332)	(1,026,120)	(6,587,701)	0	(704,720)	0	(8,472,873)
Ending Balance (2014)	$20,990,803	$5,679,334	$1,448,267	$4,635	$0	$80,394,822	$108,517,861

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	$1,955,209	$1,831,687	$1,765,787
Transfers from Other Systems	264,025	117,181	5,847
Member Make Up Payments and Re-deposits	69,232	33,209	39,074
Investment Income Credited to Member Accounts	21,887	24,649	27,387
Sub Total	2,310,353	2,006,726	1,838,094
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	167,514	171,208	174,452
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	225,597	223,221	227,373
Received from Commonwealth for COLA and Survivor Benefits	56,988	117,294	272,330
Pension Fund Appropriation	5,009,570	4,701,247	4,492,609
Settlement of Workers' Compensation Claims	0	2,088	0
Recovery of 91A Overearnings	0	0	2,089
Sub Total	5,292,155	5,043,849	4,994,401
Military Service Fund:			
Investment Income Credited to the Military Service Fund	5	5	5
Expense Fund:			
Investment Income Credited to the Expense Fund	704,720	672,940	588,625
Pension Reserve Fund:			
Interest Not Refunded	0	0	1,968
Excess Investment Income	7,221,548	12,404,026	10,046,049
Sub Total	7,221,548	12,404,026	10,048,017
Total Receipts, Net	$15,696,295	$20,298,754	$17,643,593

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	$53,639	$124,849	$146,859
Transfers to Other Systems	100,693	0	291,122
Sub Total	154,332	124,849	437,981
Annuity Reserve Fund:			
Annuities Paid	1,026,120	971,342	946,682
Option B Refunds	0	38,945	0
Sub Total	1,026,120	1,010,287	946,682
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,982,084	3,886,567	3,764,540
Survivorship Payments	547,595	495,177	469,366
Ordinary Disability Payments	45,812	44,466	43,130
Accidental Disability Payments	1,382,956	1,336,478	1,352,983
Accidental Death Payments	325,830	303,869	315,722
Section 101 Benefits	75,272	63,813	67,199
3 (8) (c) Reimbursements to Other Systems	130,143	138,958	126,181
State Reimbursable COLA's Paid	98,008	96,016	96,368
Sub Total	6,587,701	6,365,344	6,235,488
Expense Fund:			
Board Member Stipend	1,500	1,500	1,500
Salaries	110,908	112,823	107,386
Legal Expenses	15,716	10,615	14,399
Medical Expenses	15	0	0
Travel Expenses	646	905	276
Administrative Expenses	1,625	2,971	3,090
Education and Training	540	1,530	0
Management Fees	550,787	520,703	440,875
Service Contracts	17,614	16,775	15,990
Fiduciary Insurance	5,369	5,116	5,109
Sub Total	704,720	672,940	588,625
Total Disbursements	$8,472,873	$8,173,420	$8,208,776

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Investment Income Received From:			
Cash	$0	$0	$0
Pooled or Mutual Funds	2,931,435	2,711,628	2,625,600
Total Investment Income	2,931,435	2,711,628	2,625,600
Plus:			
Realized Gains	4,644,854	4,338,800	2,124,662
Unrealized Gains	6,686,934	11,208,279	11,166,891
Sub Total	11,331,788	15,547,079	13,291,553
Less:			
Unrealized Loss	(6,147,549)	(4,985,879)	(5,080,635)
Sub Total	(6,147,549)	(4,985,879)	(5,080,635)
Net Investment Income	8,115,674	13,272,828	10,836,518
Income Required:			
Annuity Savings Fund	21,887	24,649	27,387
Annuity Reserve Fund	167,514	171,208	174,452
Military Service Fund	5	5	5
Expense Fund	704,720	672,940	588,625
Total Income Required	894,126	868,802	790,468
Net Investment Income	8,115,674	13,272,828	10,836,518
Less: Total Income Required	894,126	868,802	790,468
Excess Income (Loss) To The Pension Reserve Fund	$7,221,548	$12,404,026	$10,046,049

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2014	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$231,517	0.2%
PRIT Cash Fund	630,869	0.6%
PRIT Core Fund	107,655,475	99.2%
Grand Total	$108,517,861	100.0%

For the year ending December 31, 2014, the rate of return for the investments of the Milton Retirement System was 8.19%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Milton Retirement System averaged 10.11%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Milton Retirement System was 9.61%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Milton Retirement System is 100% invested in PRIT and therefore has no supplemental investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Milton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $821.52 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $821.52 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of $150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board (retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the) (primarily relies upon the investment strategy of the PRIM Board to maintain their) progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Milton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

December 15, 2006
An employee who is employed at least thirty (30) hours per week on a permanent basis shall become a member of the Milton Retirement System.

November 3, 1989
Any full time provisional employee must join the retirement system after working 6 months in the same position.

September 25, 1989
Effective July 1, 1987 all employees who are considered Permanent Part time employees of the town, and who work at least 25 hours per week or more, are required to join the retirement system. Any employee who works less than 25 hours per week, whether they are permanent full-time or part-time is ineligible to join the system.

Any employee enrolled in the system as of July 1, 1987, who does not work at least 25 hours per week, will be allowed to continue in the system and will receive all benefits allowed by law.

An exception to this regulation is that any elected Town official, who receives a salary for his/her services, may join the retirement system.

Creditable Service:

March 27, 2000
Any employee of the Milton School Department or employee of the Town of Milton who is not a certified teacher and, therefore, eligible for membership in the Milton Retirement System will be given credit for a full year of creditable service if they are employed full- time for the job they perform. If the job occurs only during the school year, full-time employment in the school system would be the maximum number of hours they are assigned to the job function so long as the number equals 25 hours per week during the school year. Full-time service will be credited only if the member retires from said position.

September 10, 1996
Any employee of the Milton School Department who is not a certified teacher and therefore eligible to apply for membership in the Milton Retirement system will be given credit for a full year of creditable service if they are employed full-time for the job they perform if the job only occurs during the school year. Full-time employment in the school system would be the maximum number of hours that are assigned to the job function so long as the number equals 25 hours per week. Full-time service will be credited only if the member retires from said position.

March 23, 1990
Any part-time permanent, temporary, provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment be given creditable service based on actual service rendered.

Example: day = 7.5 hours, week = 37.5 hours

Miscellaneous:
Review of DALA Decisions:
February 8, 1991
All written decisions received from the Division of Administrative Law Appeals be reviewed immediately upon receipt in order to take further action that may be appropriate. The Board voted to accept the new provisions amending G.L. c. 32, § 16 (4). The effective date of the bill is March 18, 1991. This chapter 331 of the acts of 1990 was signed by the Governor on Dec. 18, 1990. Town Counsel will be advised of the new provisions in G.L. c. 32, § 16 (4) so that orders that are directed to the attorney will be transmitted to the board for review.

Buy-backs:
October 30, 1991
Effective July 1, 1991, any employee eligible for membership in the retirement system may not buy back or make-up previous service for any period of time after July 1, 1991 during which his/her wages were subject to tax under FICA.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Amy Dexter	Indefinite	
Appointed Member:	John E. King	Term Expires:	8/1/18
Elected Member:	Kevin J. Cleary, Chairman	Term Expires:	6/30/17
Elected Member:	William H. Murphy, Jr.	Term Expires:	6/30/19
Appointed Member:	Richard Madigan	Term Expires:	4/30/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2015

The actuarial liability for active members was	$63,701,893
The actuarial liability for vested terminated members was	413,889
The actuarial liability for non-vested terminated members was	334,633
The actuarial liability for retired members was	71,224,000
The total actuarial liability was	$135,674,415
System assets as of that date were	103,858,692
The unfunded actuarial liability was	$31,815,723
The ratio of system's assets to total actuarial liability was	76.5%
As of that date the total covered employee payroll was	$21,049,175

The normal cost for employees on that date was	8.9% of payroll
The normal cost for the employer was	6.2% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by group & service

SCHEDULE OF FUNDING PROGRESS
AS OF JANUARY 1, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2015	$103,858,692	$135,674,415	$31,815,723	76.5%	$21,049,175	151.1%
1/1/2013	$86,729,191	$121,723,171	$34,993,980	71.3%	$19,175,686	182.5%
1/1/2011	$87,479,107	$113,132,039	$25,652,932	77.3%	$17,241,221	148.8%
1/1/2009	$73,278,417	$99,303,806	$26,025,389	73.8%	$17,341,534	150.1%
1/1/2007	$74,305,047	$92,325,220	$18,020,173	80.5%	$15,902,647	113.3%

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	4	3	3	4	8	12	10	8	9	11
Ordinary Disability	0	0	0	0	1	0	0	0	0	0
Accidental Disability	1	1	1	0	2	2	0	0	0	0
Total Retirements	5	4	4	4	11	14	10	8	9	11
Total Retirees, Beneficiaries and Survivors	300	299	284	276	273	274	273	267	263	269
Total Active Members	345	352	334	349	340	335	355	365	368	367
Pension Payments										
Superannuation	$3,234,584	$3,278,058	$3,375,703	$3,329,792	$3,391,819	$3,628,268	$3,728,296	$3,764,540	$3,886,567	$3,982,084
Survivor/Beneficiary Payments	352,603	366,503	418,425	493,204	512,839	513,745	499,758	469,366	495,177	547,595
Ordinary Disability	41,902	35,757	27,800	28,520	31,633	40,608	41,806	43,130	44,466	45,812
Accidental Disability	903,466	1,100,999	1,035,029	1,034,742	1,066,354	1,213,434	1,334,262	1,352,983	1,336,478	1,382,956
Other	467,755	546,915	608,240	618,509	602,931	594,269	589,640	605,470	602,657	629,254
Total Payments for Year	$5,000,310	$5,328,232	$5,465,197	$5,504,767	$5,605,576	$5,990,324	$6,193,762	$6,235,488	$6,365,344	$6,587,701

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