ANDOVER

RETIREMENT SYSTEM AUDIT REPORT

JAN. 1, 2019 - DEC. 31, 2022



Commission Members

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Chairman

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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December 5, 2025

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Andover Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2019 to December 31, 2022. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash and investment balances are accurately stated, 3) that procurements of investment related contracts complied with the provisions of Section 23B of Chapter 32 and that management fees paid were in accordance with the executed contracts, 4) that retirement contributions are accurately deducted, 5) that retirement allowances were correctly calculated, and 6) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Andover Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight and verified cash and investment balances, examined a sample of investment related procurements and recalculated management fees charged. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We reviewed a sample of member files for accuracy and completeness.

In our opinion, for those areas tested, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC.

We commend the Andover Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of the auditors who conducted this examination, and express appreciation to the Board and staff for their courtesy and cooperation.

Sincerely,

William T. Keefe Executive Director

Bill Kufe





ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,					
	2022	2021	2020	2019		
Net Assets Available For Benefits:						
Cash	\$25,405,594	\$688,807	\$346,743	\$335,171		
Pooled Domestic Equity Funds	55,074,952	65,549,599	53,612,785	46,418,343		
Pooled International Equity Funds	7,737,990	9,475,868	9,010,131	7,739,741		
Pooled Domestic Fixed Income Funds	13,285,738	15,321,758	15,041,645	13,944,314		
Pooled Real Estate Funds	18,047,193	16,866,775	13,256,151	13,174,674		
PRIT Cash Fund	229,452	164,566,685	350,079	451,631		
PRIT Core Fund	223,753,173	111,715,684	91,871,463	80,191,772		
Prepaid Expenses	0	275	260	0		
Accounts Receivable	21,624	140,948	112,581	4,153		
Accounts Payable	(30,817)	(28,270)	(14,248)	(23,978)		
Total	\$343,524,899	\$384,298,130	\$183,587,589	\$162,235,822		
Fund Balances:		-				
Annuity Savings Fund	\$47,134,958	\$46,062,164	\$45,680,723	\$44,798,808		
Annuity Reserve Fund	15,917,393	15,680,350	14,283,064	13,542,817		
Pension Fund	157,430,227	165,531,745	2,080,657	0		
Military Service Fund	31,933	31,902	31,870	31,838		
Expense Fund	0	0	0	0		
Pension Reserve Fund	123,010,387	156,991,970	121,511,276	103,862,358		
Total	\$343,524,899	\$384,298,130	\$ <u>183,587,589</u>	\$ <u>162,235,822</u>		

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 2019	\$43,049,163	\$13,766,943	\$48,240	\$31,806	\$0	\$80,698,488	\$137,594,640
Receipts	4,684,254	405,293	12,092,304	32	877,278	24,191,566	42,250,725
Interfund Transfers	(2,141,025)	2,167,415	1,001,305	0	0	(1,027,695)	0
Disbursements	(<u>793,583</u>)	(<u>2,796,834</u>)	(<u>13,141,849</u>)	<u>0</u>	(<u>877,278</u>)	<u>0</u>	(<u>17,609,543</u>)
Ending Balance 2019	44,798,808	13,542,817	0	31,838	0	103,862,358	162,235,822
Receipts	4,899,158	398,557	14,572,730	32	878,914	18,679,788	39,429,178
Interfund Transfers	(3,271,100)	3,261,642	1,040,328	0	0	(1,030,870)	0
Disbursements	(<u>746,143</u>)	(<u>2,919,952</u>)	(13,532,402)	<u>0</u>	(<u>878,914</u>)	<u>0</u>	(<u>18,077,411</u>)
Ending Balance 2020	45,680,723	14,283,064	2,080,657	31,870	0	121,511,276	183,587,589
Receipts	5,265,816	443,556	177,887,389	32	1,094,318	35,476,005	220,167,116
Interfund Transfers	(4,220,548)	4,215,859	0	0	0	4,689	0
Disbursements	(<u>663,827</u>)	(3,262,128)	(<u>14,436,301</u>)	<u>0</u>	(<u>1,094,318</u>)	<u>0</u>	(<u>19,456,575</u>)
Ending Balance 2021	46,062,164	15,680,350	165,531,745	31,902	0	156,991,970	384,298,130
Receipts	5,411,562	471,997	7,093,546	32	1,599,942	(34,022,448)	(19,445,370)
Interfund Transfers	(3,388,667)	3,347,802	0	0	0	40,866	0
Disbursements	<u>(950,100)</u>	(3,582,756)	(15,195,064)	<u>0</u>	(1,599,942)	<u>0</u>	(21,327,861)
Ending Balance 2022	\$ <u>47,134,958</u>	\$ <u>15,917,393</u>	\$ <u>157,430,227</u>	\$ <u>31,933</u>	\$ <u>0</u>	\$ <u>123,010,387</u>	\$ <u>343,524,899</u>

STATEMENT OF RECEIPTS

		OR THE PERIOD E	ENDING DECEMBER	2 31
	2022	2021	2020	2019
Annuity Savings Fund:	-			
Members Deductions	\$4,445,150	\$4,288,388	\$4,392,572	\$4,084,838
Transfers from Other Systems	847,381	880,290	394,488	480,124
Member Make Up Payments and Re-deposits	49,149	26,199	44,700	32,429
Member Payments from Rollovers	1,508	17,978	14,529	31,510
Investment Income Credited to Member Accounts	68,375	52,961	52,868	55,353
Sub Total	5,411,562	5,265,816	4,899,158	4,684,254
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve				
Fund	471,997	443,556	398,557	405,293
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	628,228	616,491	592,424	502,798
Received from Commonwealth for COLA and	020,220	010,431	002,424	302,730
Survivor Benefits	51,281	59,258	63,527	67,493
Pension Fund Appropriation	6,414,037	177,211,641	13,916,779	11,518,013
Settlement of Workers' Compensation Claims	0,414,007	0	0	4,000
Recovery of 91A Overearnings	0	0	0	0
Sub Total	7,093,546	177,887,389	14,572,730	12,092,304
Military Service Fund:				
Investment Income Credited to the Military Service				
Fund	32	32	32	32
Expense Fund:	=	=	=	-
Investment Income Credited to the Expense Fund	1,599,942	1,094,318	878,914	877,278
arvestment interne Greatest to the Expense Fund	1,000,012	1,001,010	010,011	011,210
Pension Reserve Fund:				
Interest Not Refunded	4,124	651	700	2,317
Miscellaneous Income	77	3,632	0	10,221
Excess Investment Income (Loss)	(34,026,649)	35,471,722	18,679,087	24,179,028
Sub Total	(34,022,448)	35,476,005	18,679,788	24,191,566
Total Receipts, Net	(\$19,445,370)	\$220,167,116	\$39,429,178	\$42,250,725

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,					
	2022	2021	2020	2019		
Annuity Savings Fund:						
Refunds to Members	\$581,584	\$325,310	\$154,458	\$313,498		
Transfers to Other Systems	368,517	<u>338,517</u>	591,685	480,086		
Sub Total	950,100	663,827	746,143	793,583		
Annuity Reserve Fund:						
Annuities Paid	3,561,859	3,262,128	2,919,952	2,735,515		
Option B Refunds	20,896	0	0	61,319		
Sub Total	3,582,756	3,262,128	2,919,952	2,796,834		
Pension Fund:						
Pensions Paid:						
Regular Pension Payments	12,097,359	11,479,066	10,684,864	10,299,851		
Survivorship Payments	717,446	610,292	591,859	609,849		
Ordinary Disability Payments	96,912	134,668	132,998	102,294		
Accidental Disability Payments	1,524,658	1,531,857	1,459,808	1,382,825		
Accidental Death Payments	171,493	124,242	104,851	104,245		
Section 101 Benefits	28,894	28,825	28,186	22,157		
3 (8) (c) Reimbursements to Other Systems	558,302	527,351	529,836	620,628		
Sub Total	15,195,064	14,436,301	13,532,402	13,141,849		
Expense Fund:						
Board Member Stipend	6,000	6,000	6,000	6,000		
Salaries	201,905	184,546	178,039	168,895		
Benefits	26,514	26,514	25,324	24,283		
Legal Expenses	30,062	20,314	13,591	23,807		
Medical Expenses	53	0	15,001	0		
Travel Expenses	875	0	0	3,036		
Administrative Expenses	8,070	5,430	6,840	5,687		
Professional Services	0	0	0	384		
Actuarial Services	14,545	21,775	19,250	4,250		
Accounting Services	5,000	5,000	2,500	5,000		
Education and Training	1,018	300	0	1,755		
Furniture and Equipment	543	1,423	0	0		
Management Fees	1,200,331	745,510	551,879	560,539		
Consultant Fees	50,000	30,000	30,000	30,000		
Service Contracts	40,479	38,908	37,417	35,750		
Fiduciary Insurance	14,547	8,594	8,060	7,892		
Sub Total	1,599,942	1,094,318	878,914	877,278		
Total Disbursements	\$21,327,861	\$ <u>19,456,575</u>	\$18,077,411	\$17,609,543		

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,				
Investment Income Received From:	2022	2021	2020	2019	
Cash	\$455,230	\$0	\$0	\$0	
Pooled or Mutual Funds	7,730,621	4,650,936	3,815,080	4,101,534	
Total Investment Income	<u>8,185,851</u>	<u>4,650,936</u>	<u>3,815,080</u>	<u>4,101,534</u>	
Plus:					
Realized Gains	3,695,499	15,364,256	7,196,426	8,592,970	
Unrealized Gains	<u>37,945,164</u>	28,493,533	40,475,361	24,862,722	
Sub Total	41,640,663	43,857,789	47,671,788	33,455,692	
Less:					
Paid Accrued Interest on Fixed Income Securities					
Realized Loss	(1,640,142)	(39,734)	(1,394,648)	(319,696)	
Unrealized Loss	(80,067,062)	(<u>11,397,937</u>)	(30,074,832)	(<u>11,712,649</u>)	
Sub Total	(<u>81,707,204</u>)	(<u>11,437,671</u>)	(31,469,479)	(12,032,345)	
Additional Adjustments:					
Miscellaneous Investment Expenses	(<u>5,613</u>)	(<u>8,464</u>)	(<u>7,931</u>)	(<u>7,898</u>)	
Sub Total	(5,613)	(8,464)	(7,931)	(7,898)	
Net Investment Income (Loss)	(31,886,303)	37,062,589	20,009,458	25,516,983	
Income Required:					
Annuity Savings Fund	68,375	52,961	52,868	55,353	
Annuity Reserve Fund	471,997	443,556	398,557	405,293	
Military Service Fund	32	32	32	32	
Expense Fund	1,599,942	1,094,318	878,914	877,278	
Total Income Required	2,140,346	1,590,867	1,330,370	1,337,955	
Net Investment Income (Loss)	(31,886,303)	37,062,589	20,009,458	25,516,983	
Less: Total Income Required	2,140,346	1,590,867	1,330,370	1,337,955	
Excess Income (Loss) To The Pension					
Reserve Fund	(\$34,026,649)	\$ <u>35,471,722</u>	\$ <u>18,679,087</u>	\$24,179,028	

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2022			
		PERCENTAGE OF TOTAL		
	MARKET VALUE	ASSETS		
Cash	\$25,405,594	7.4%		
Pooled Domestic Equity Funds	55,074,952	16.0%		
Pooled International Equity Funds	7,737,990	2.3%		
Pooled Domestic Fixed Income Funds	13,285,738	3.9%		
Pooled Real Estate Funds	18,047,193	5.3%		
PRIT Cash Fund	229,452	0.1%		
PRIT Core Fund	<u>223,753,173</u>	<u>65.1</u> %		
Grand Total	<u>\$343,534,092</u>	<u>100.0</u> %		

For the year ending December 31, 2022, the rate of return for the investments of the Andover Retirement System was -8.37%. For the ten-year period ending December 31, 2022, the rate of return for the investments of the Andover Retirement System averaged 8.51%. For the 38-year period ending December 31, 2022, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Andover Retirement System was 8.36%.

The composite rate of return for all retirement systems for the year ending December 31, 2022 was -10.84%. For the ten-year period ending December 31, 2022, the composite rate of return for the investments of all retirement systems averaged 8.18%. For the 38-year period ending December 31, 2022, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 8.99%.

SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Andover 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.

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 73.

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 \$1,060.80 per year (or \$312 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 \$1,060.80 per year, per child (or \$312 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 \$300,000 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 (OPTION D)

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 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.

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 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.

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.

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant/Assistant Chief Financial Officer, 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: Hayley S. Green, Chairperson

Appointed Member: Mathew Fabiani Term Expires: 09/19/26

Elected Member: Barbara Morache Term Expires: 01/09/28

Elected Member: Eric J. Teichert Term Expires: 06/16/27

Appointed Member: Blackwell O.J. Taylor Term Expires: 04/04/27

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.

BOARD REGULATIONS

The Andover Retirement Board has adopted Regulations which are available on the PERAC website at https://www.mass.gov/andover-retirement-board-regulations.

MEMBERSHIP EXHIBIT

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Retirement in Past Years										
Superannuation	22	27	38	33	39	38	26	39	50	46
Ordinary Disability	0	0	0	0	1	0	0	0	0	1
Accidental Disability	2	2	2	2	1	1	0	5	3	3
Total Retirements	24	29	40	35	41	39	26	44	53	50
Total Retirees, Beneficiaries										
and Survivors	407	424	430	445	466	486	500	526	549	577
Total Active Members	734	711	731	728	731	739	756	744	722	717
Pension Payments										
Superannuation	\$7,252,180	\$7,762,883	\$8,071,493	\$8,615,297	\$9,240,380	\$9,916,722	\$10,299,851	\$10,684,864	\$11,479,066	\$12,097,359
Survivor/Beneficiary Payments	456,055	459,666	469,642	549,413	565,242	570,147	609,849	591,859	610,292	717,446
Ordinary Disability	71,978	58,583	57,577	58,592	66,759	102,544	102,294	132,998	134,668	96,912
Accidental Disability	1,257,176	1,325,980	1,403,867	1,337,459	1,305,395	1,355,760	1,382,825	1,459,808	1,531,857	1,524,658
Other	322,138	467,558	479,465	455,255	<u>597,996</u>	669,501	747,030	662,873	680,417	758,689
Total Payments for Year	\$ <u>9,359,527</u>	\$ <u>10,074,670</u>	\$ <u>10,482,044</u>	\$ <u>11,016,017</u>	\$ <u>11,775,772</u>	\$ <u>12,614,674</u>	\$ <u>13,141,849</u>	\$ <u>13,532,402</u>	\$ <u>14,436,301</u>	\$ <u>15,195,064</u>

SUBSEQUENT EVENT

LEASED PREMISES

The Andover Retirement Board signed a lease for approximately 1,249 square feet of space for its offices located at 790 Turnpike Street Suite 103, North Andover. The two-year lease term commenced January 1, 2025 and will expire on December 31, 2026. The landlord is Jefferson Equity Partners, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases:

For the year ending:	Annual Rent
2025	\$23,106
2026	<u>24,356</u>
Total future minimum lease payments required	\$47.462



