ARLINGTON

RETIREMENT SYSTEM
AUDIT REPORT

JAN. 1, 2014 - DEC. 31, 2017





COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chairman

JOHN W. PARSONS, ESQ., Executive Director

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

October 7, 2020

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Arlington Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January I, 2014 to December 31, 2017. 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 review were to determine: I) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that investment balances are accurately stated, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Arlington Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash and investment balances, and tested a sample of travel expenses for Board approvals, supporting documentation and proper accounting. 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 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 also 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 the Public Employee Retirement Administration Commission.

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

In closing, I acknowledge the work of examiners Carol Poladian and Karen Casper, who conducted this examination, and express my appreciation to the Board and staff for their courtesy and cooperation.

Sincerely

John W. Parsons, Esq.

Executive Director







ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,						
	2017	2016	2015	2014			
Net Assets Available For Benefits:							
Cash	\$102,525	\$39,316	\$36,485	\$35,009			
Short Term Investments	5,105,800	7,460,175	5,090,609	5,449,299			
Pooled Alternative Investment Funds	2,376,765	2,837,069	3,523,725	4,289,918			
PRIT Core Fund	150,383,048	128,298,343	124,279,861	125,058,177			
Interest Due and Accrued	6,104	4,699	1,043	304			
Accounts Receivable	100,943	500,002	340,281	485,974			
Accounts Payable	(<u>5,569</u>)	(<u>11,947</u>)	<u>0</u>	<u>0</u>			
Total	\$ <u>158,069,616</u>	\$ <u>139,127,657</u>	\$ <u>133,272,004</u>	\$ <u>135,318,681</u>			
Fund Balances:							
Annuity Savings Fund	\$36,139,539	\$34,404,061	\$32,807,151	\$31,804,022			
Annuity Reserve Fund	9,387,621	9,938,445	10,574,044	10,545,859			
Pension Fund	1,791,353	1,186,031	703,766	636,916			
Military Service Fund	15,714	15,698	15,683	15,667			
Expense Fund	0	0	0	0			
Pension Reserve Fund	110,735,389	93,583,422	89,171,360	92,316,217			
Total	\$ <u>158,069,616</u>	\$ <u>139,127,657</u>	\$ <u>133,272,004</u>	\$ <u>135,318,681</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 2014	\$29,941,905	\$11,987,153	\$415,935	\$15,651	\$0	\$87,584,999	\$129,945,643
Receipts	3,356,085	338,904	10,749,842	16	997,712	8,948,094	24,390,652
Interfund Transfers	(588,470)	593,003	4,212,343	0	0	(4,216,876)	0
Disbursements	(<u>905,497</u>)	(2,373,200)	(<u>14,741,205</u>)	<u>0</u>	(<u>997,712</u>)	<u>0</u>	(<u>19,017,614</u>)
Ending Balance 2014	31,804,022	10,545,859	636,916	15,667	0	92,316,217	135,318,681
Receipts	3,850,570	320,060	11,148,491	16	1,004,759	844,340	17,168,235
Interfund Transfers	(2,157,940)	2,157,940	3,989,197	0	0	(3,989,197)	0
Disbursements	(<u>689,501</u>)	(<u>2,449,815</u>)	(15,070,837)	<u>0</u>	(<u>1,004,759</u>)	<u>0</u>	(<u>19,214,912</u>)
Ending Balance 2015	32,807,151	10,574,044	703,767	15,683	0	89,171,360	133,272,004
Receipts	4,175,437	311,847	12,005,504	16	1,074,681	8,352,182	25,919,668
Interfund Transfers	(1,629,748)	1,651,350	3,918,519	0	0	(3,940,121)	0
Disbursements	(<u>948,779</u>)	(<u>2,598,796</u>)	(<u>15,441,759</u>)	<u>0</u>	(<u>1,074,681</u>)	<u>0</u>	(<u>20,064,015</u>)
Ending Balance 2016	34,404,061	9,938,445	1,186,031	15,698	0	93,583,422	139,127,657
Receipts	4,227,531	295,159	12,351,968	16	1,104,286	21,071,008	39,049,967
Interfund Transfers	(1,810,584)	1,811,106	3,918,519	0	0	(3,919,041)	0
Disbursements	<u>(681,469)</u>	(2,657,088)	(15,665,164)	<u>0</u>	(1,104,286)	<u>0</u>	(20,108,008)
Ending Balance 2017	\$36,139,539	\$9,387,621	\$1,791,354	\$15,714	\$ <u>0</u>	\$110,735,389	\$158,069,617

^{*} Individual line item balances are rounded for reporting purposes

STATEMENT OF RECEIPTS

		FOR THE PERIOD E	NDING DECEMBER	31,
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	\$3,701,138	\$3,496,737	\$3,403,614	\$3,152,281
Transfers from Other Systems	345,436	623,382	347,673	134,262
Member Make Up Payments and Re-deposits	17,901	19,138	48,490	24,562
Member Payments from Rollovers	111,492	1,551	6,258	10,162
Investment Income Credited to Member Accounts	<u>51,564</u>	<u>34,630</u>	<u>44,534</u>	34,817
Sub Total	4,227,531	<u>4,175,437</u>	3,850,570	3,356,085
Annuity Reserve Fund: Investment Income Credited to the Annuity Reserve Fund	295,159	311,847	320,060	338,904
Pension Fund:	273,137	311,047	320,000	330,704
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor	509,760	480,178	360,340	463,389
Benefits	136,931	433,298	265,905	322,164
Pension Fund Appropriation	11,696,077	11,086,329	10,508,369	9,960,539
Settlement of Workers' Compensation Claims	9,200	5,700	9,600	3,750
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>4,277</u>	<u>0</u>
Sub Total	12,351,968	12,005,504	11,148,491	10,749,842
Military Service Fund: Investment Income Credited to the Military Service Fund	16	<u>16</u>	16	<u>16</u>
Expense Fund:	10	"	<u>10</u>	<u>10</u>
Investment Income Credited to the Expense Fund	<u>1,104,286</u>	<u>1,074,681</u>	1,004,759	997,712
Pension Reserve Fund:				
Federal Grant Reimbursement	22,732	36,425	37,847	32,741
Interest Not Refunded	417	768	2,502	893
Excess Investment Income	21,047,859	8,314,989	803,991	8,914,460
Sub Total	21,071,008	8,352,182	844,340	8,948,094
Total Receipts, Net	\$ <u>39,049,967</u>	\$ <u>25,919,668</u>	\$ <u>17,168,235</u>	\$ <u>24,390,652</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,				
	2017	2016	2015	2014	
Annuity Savings Fund:					
Refunds to Members	\$276,223	\$122,763	\$180,147	\$154,452	
Transfers to Other Systems	405,246	826,017	509,354	751,045	
Sub Total	681,469	948,779	689,501	905,497	
Annuity Reserve Fund:				·	
Annuities Paid	2,605,372	2,520,751	2,408,924	2,355,899	
Option B Refunds	51,716	78,046	40,891	17,301	
' Sub Total	2,657,088	2,598,796	2,449,815	2,373,200	
Pension Fund:	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Pensions Paid:					
Regular Pension Payments	10,413,007	10,263,572	9,927,528	9,707,704	
Survivorship Payments	1,048,357	931,494	887,575	850,922	
Ordinary Disability Payments	150,582	147,103	158,589	183,459	
Accidental Disability Payments	3,008,195	2,969,803	2,977,839	2,772,342	
Accidental Death Payments	404,456	414,620	442,141	449,678	
Section 101 Benefits	252,487	234,589	225,624	222,661	
3 (8) (c) Reimbursements to Other Systems	388,080	480,578	451,541	429,401	
State Reimbursable COLA's Paid	0	0	<u>0</u>	125,038	
Sub Total	15,665,164	15,441,759	15,070,837	14,741,205	
Expense Fund:					
Board Member Stipend	23,250	25,500	24,750	25,500	
Salaries	166,168	165,267	156,990	152,706	
Legal Expenses	3,912	11,369	6,318	20,073	
Medical Expenses	840	251	49	399	
Travel Expenses	682	1,489	1,075	1,508	
Administrative Expenses	48,153	50,436	44,267	42,375	
Actuarial Services	18,925	18,175	11,925	17,650	
Accounting Services	4,500	9,000	5,500	C	
Education and Training	1,466	1,518	954	878	
Furniture and Equipment	0	4,551	0	1,555	
Management Fees	740,402	704,869	678,652	688,294	
Custodial Fees	15,108	15,108	14,808	13,908	
Consultant Fees	24,000	21,000	20,250	18,000	
Rent Expenses	15,113	8,816	0	C	
Service Contracts	30,883	26,600	28,805	4,730	
Fiduciary Insurance	10,883	10,731	10,415	10,135	
Sub Total	1,104,286	1,074,681	1,004,759	997,712	
Total Disbursements	\$ <u>20,108,008</u>	\$ <u>20,064,015</u>	\$ <u>19,214,912</u>	\$ <u>19,017,614</u>	

INVESTMENT INCOME

	ı	FOR THE PERIOD E	NDING DECEMBER	R 31,
	2017	2016	2015	2014
Investment Income Received From:				
Cash	\$302	\$181	\$74	\$0
Short Term Investments	99,569	34,706	7,777	3,139
Equities	0	0	816	145
Total Investment Income	99,871	34,887	8,668	3,285
Plus:				
Unrealized Gains	22,580,356	15,692,742	10,704,655	15,525,400
Interest Due and Accrued - Current Year	6,104	4,699	1,043	304
Sub Total	22,586,459	15,697,441	10,705,698	15,525,704
Less:				
Unrealized Loss	(182,749)	(5,995,122)	(8,540,703)	(5,242,929)
Interest Due and Accrued - Prior Year	(4,699)	(<u>1,043</u>)	(<u>304</u>)	(<u>152</u>)
Sub Total	(187,447)	(<u>5,996,165</u>)	(8,541,007)	(5,243,080)
Net Investment Income	22,498,883	9,736,163	2,173,359	10,285,908
Income Required:				
Annuity Savings Fund	51,564	34,630	44,534	34,817
Annuity Reserve Fund	295,159	311,847	320,060	338,904
Military Service Fund	16	16	16	16
Expense Fund	1,104,286	1,074,681	1,004,759	997,712
Total Income Required	1,451,024	<u>1,421,173</u>	1,369,368	1,371,448
Net Investment Income	22,498,883	9,736,163	2,173,359	10,285,908
Less: Total Income Required	1,451,024	1,421,173	1,369,368	1,371,448
Excess Income To The Pension Reserve				
Fund	\$21,047,859	\$8,314,989	\$803,991	\$8,914,460

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2017				
		PERCENTAGE			
	MARKET VALUE	OF TOTAL ASSETS			
Cash	\$102,525	0.1%			
Short Term Investments	5,105,800	3.2%			
Pooled Alternative Investment Funds	2,376,765	1.5%			
PRIT Core Fund	<u>150,383,048</u>	<u>95.2</u> %			
Grand Total	<u>\$157,968,138</u>	<u>100.0</u> %			

For the year ending December 31, 2017, the rate of return for the investments of the Arlington Retirement System was 16.39%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Arlington Retirement System averaged 9.53%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Arlington Retirement System was 8.53%.

The composite rate of return for all retirement systems for the year ending December 31, 2017 was 17.63%. For the five-year period ending December 31, 2017, the composite rate of return for the investments of all retirement systems averaged 9.83%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.36%.

SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Arlington 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 I:

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 I 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 I, 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. I, 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 I 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 I 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 I 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 I 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 72.

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 I, 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 I 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 I2 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 \$897.72 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. I 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 \$897.72 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 \$300,000.00 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 (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 I 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.

<u>Short Term Investments</u> 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 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 <u>administrative expenses</u> of the system.

The <u>Annuity Savings Fund</u> 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 <u>Special Military Service Credit Fund</u> 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 <u>Expense Fund</u> contains amounts transferred from investment income for the purposes of administering the retirement system.

The <u>Pension Fund</u> 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 Comptroller 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: Ida Cody

Appointed Member: Richard Keshian Serves until a successor is appointed

Elected Member: Kenneth Hughes, Chairman Term Expires: 09/29/2020
Elected Member: Robert Jefferson Term Expires: 09/29/2020
Appointed Member: Ken Steele Term Expires: 01/31/2021

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

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2019.

The actuarial liability for active members was	\$115,907,891
The actuarial liability for inactive members was	2,456,177
The actuarial liability for retired members was	181,609,016
The total actuarial liability was	299,973,084
System assets as of that date were (actuarial value)	157,412,287
The unfunded actuarial liability was	\$ <u>142,560,797</u>
The ratio of system's assets to total actuarial liability was	52.5%
As of that date the total covered employee payroll was	\$40,091,629

The normal cost for employees on that date was 9.2% of payroll

The normal cost for the employer including administrative expenses was 7.3% of payroll

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

Investment Return: 7.00% per annum

Rate of Salary Increase: Select and ultimate rates

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2019 (Dollars in \$000's)

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Cov. Payroll
Date 1/1/2019	(a) \$157,412	(b) \$299,973	(b-a) \$142,561	(a/b) 52.5%	(c) \$40,092	((b-a)/c) 355.6%
1/1/2018	\$151,650	\$294,347	\$142,697	51.5%	\$38,204	373.5%
1/1/2017	\$143,793 \$137,743	\$277,735 \$272,618	\$133,942 \$134,875	51.8% 50.5%	\$36,784 \$34,725	364.1% 388.4%
1/1/2015	\$130,162	\$272,616 \$255,494	\$125,332	50.9%	\$34,723	373.7%

MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retirement in Past Years										
Superannuation	25	20	21	21	15	22	6	20	17	16
Ordinary Disability	0	I	0	0	I	2	0	0	0	0
Accidental Disability	3	4	2	3	1	3	2	2	I	2
Total Retirements	28	25	23	24	17	27	8	22	18	18
Total Retirees, Beneficiaries										
and Survivors	659	656	632	639	637	626	644	601	601	597
Total Active Members	699	694	678	692	682	769	710	703	737	759
Pension Payments										
Superannuation	\$8,347,153	\$8,766,817	\$9,198,169	\$9,520,485	\$9,884,954	\$9,910,308	\$9,707,704	\$9,927,528	\$10,263,572	\$10,413,00
Survivor/Beneficiary Payments	665,708	644,875	657,454	681,119	716,681	775,090	850,922	887,575	931,494	1,048,35
Ordinary Disability	141,773	151,412	143,892	139,364	142,541	188,036	183,459	158,589	147,103	150,58
Accidental Disability	2,404,012	2,592,650	2,672,187	2,626,124	2,675,429	2,672,495	2,772,342	2,977,839	2,969,803	3,008,19
Other	844,841	<u>855,524</u>	<u>787,021</u>	937,058	1,136,653	1,222,474	1,226,778	1,119,306	1,129,787	1,045,02
Total Payments for Year	\$ <u>12,403,487</u>	\$ <u>13,011,278</u>	\$ <u>13,458,723</u>	\$ <u>13,904,150</u>	\$ <u>14,556,258</u>	\$ <u>14,768,403</u>	\$ <u>14,741,205</u>	\$ <u>15,070,837</u>	\$ <u>15,441,759</u>	\$ <u>15,665,16</u>

LEASED PREMISES

The Arlington Retirement Board leases approximately 772 square feet of space for its offices located on the ground floor right office, Central School, 20 Academy Street, Arlington, MA. They are currently leasing under a signed 3 year lease commencing July 2016 (annual fixed rent) with 2 annual options which only required notification of the extensions. The Board is currently leasing under the extension which will expire June 30, 2021. The landlord is the Arlington Redevelopment Board.

There is an expectation that a new lease will replace the current lease once the Board relocates within the building to the second floor, pending completion of construction. The new lease has not been signed as construction is ongoing.

For the Year Ending	Annual Rent
2018	\$15,112.50
2019	15,112.50
2020	15,112.50
2021 (through June)	<u>7,556.25</u>
Total future minimum lease payments required	<u>\$52,893.75</u>

OTHER POST EMPLOYMENT BENEFITS

Chapter 161 of the Acts of 2005 allowed the Town of Arlington to establish an Other Post Employment Benefits Trust Fund for the purpose of meeting future OPEB costs payable by the town. Section 2(b) states that the fund shall be subject to PERAC's triennial audit.

The Town administers a single-employer defined benefit healthcare plan ("the Other Post Employment Benefit Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town's health insurance plan.

The actuarial valuation of the Town of Arlington's OPEB Trust Fund was prepared by Stone Consulting, Inc. as of January I, 2018 and updated to June 30, 2018 in accordance with GASB Statement No. 74. The components of the net OPEB liability of the Town of Arlington at June 30, 2018, were as follows:

Total OPEB liability Less: OPEB plan's fiduciary net position Net OPEB liability	\$196,579,007 12,854,012 \$183,724,995
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability	6.54%

ACTUARIAL METHODS AND ASSUMPTIONS

A	1 11 15 4 11 16		
Actuarial Cost Method	Individual Entry Age Normal Cost		
Asset Valuation Method	Market Value with Payables and Receivables		
Interest Rate/Discount Rate	4.27%		
HealthcareCost Trend Rate	9.0% decreasing to 5.0%		
Salary Increases	Select and Ultimate (4% Ultimate Rate)		

PLAN MEMBERSHIP

Actives	1,305
Retirees and Beneficiaries	876
Inactives	<u>16</u>
Total	<u>2,197</u>

OPEB Schedules - GASB Disclosure Information

The Schedule of Changes in the Town of Arlington's Net OPEB Liability and related Ratios presents multiyear trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

The Schedule of the Town of Arlington's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment on the Plan's other postemployment assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

SCHEDULE OF CHANGES IN THE TOWN OF ARLINGTON'S NET OPEB LIABILITY AND RELATED RATIOS

		FY 2018		FY 2017
Total OPEB Liability				
Service Cost	\$	8,639,166	\$	8,975,024
Interest		10,228,498		9,135,413
Differences between expected and actual experience		(41,500,767)		-
Changes of assumptions		(8,506,953)		-
Benefit payments	_	(6,370,083)		(6,796,528)
Net change in Total OPEB liability	\$	(37,510,139)	\$	11,313,909
Total OPEB Liability - beginning	_	234,089,146		222,775,237
Total OPEB Liability- ending	\$	196,579,007	\$	234,089,146
Plan Fiduciary Net Position				
Contributions- employer	\$	7,269,761	\$	7,664,528
Net Investment Income		753,028		1,149,114
Benefit payments		(6,370,083)		(6,796,528
Administrative expenses	_			_
Net change in Plan Fiduciary Net Position	\$	1,652,706	\$	2,017,114
Plan Fiduciary Net Position - beginning		11,201,306		9,184,192
Plan Fiduciary Net Position - ending	\$	12,854,012	\$	11,201,306
Net OPEB Liability - ending	\$	183,724,995	\$	222,887,840
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		6.54%		4.79%
Covered-Employee Payroll	\$	79,311,000	\$	77,756,000
Net OPEB Liability as a Percentage of Covered-Employee Payroll		231.65%		286.65%
Money-Weighted Rate of Return		6.24%		11.52%

SCHEDULE OF TOWN OF ARLINGTON'S CONTRIBUTIONS

Moscuromont	Contributions in relation to Actuarially the Actuarially Determined Determined		Contribution Deficiency /	Contributions as a percentage of Covered- Employee	
Date	(a)	(b)	(a-b)	(c)	(b/c)
6/30/2018	\$12,177,000	\$7,269,761	\$4,907,239	\$79,311,000	9.17%
6/30/2017	\$18,409,000	\$7,665,000	\$10,744,000	\$77,756,000	9.86%
6/30/2018	\$12,177,000	\$7,269,761	\$4,907,239	\$79,311,000	9.179

SCHEDULE OF INVESTMENT RETURNS

	Annual Money-Weighted		
Fiscal Year	Rate of Return		
2018 2017	6.24% 		

