# **ÅRLINGTON CONTRIBUTORY**

# RETIREMENT SYSTEM AUDIT REPORT JAN. 1, 2018 - DEC. 31, 2021



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION COMMONWEALTH OF MASSACHUSETTS

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December 23, 2024

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 1, 2018 to December 31, 2021. 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, including the Town of Arlington's Other Post Employment Benefits Trust Fund investment balance, are accurately stated, 3) that retirement contributions are accurately deducted, 4) that retirement allowances were correctly calculated, and 5) 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, and verified cash and investment balances. 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 had 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 with the exception noted in the finding presented in this report.

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,

Bett Keefe

William T. Keefe Executive Director



# EXPLANATION OF FINDING AND RECOMMENDATION

#### 1. New Retirees' Allowance Calculations:

We tested the retirement allowances of 16 new retirees during the audit period and found the following issues with four firefighters' retirements tested:

- Four firefighters tested did not have their retirement allowance recalculated after the Supreme Court Judicial ruling on vacation buybacks. PERAC Memo 23/2022 provided steps that the Board should take regarding vacation buybacks as regular compensation. These members were hired before May 1, 2018.
- Two firefighters had more than three years' worth of annual EMT, Longevity and School/education stipends included in their three years average of regular compensation used in their superannuation retirement allowance calculations. Each member is overpaid since their retirement date.

**Recommendation:** The Board should review how the Firefighter vacation buybacks were handled in the retirement allowance calculations. The board will need to recalculate retirement allowances.

The Board should also review retirees' calculations for members who had more than three years of annual stipends included in superannuation retirements and recalculate the retirement allowances as necessary.

#### **Board Response:**

- The Arlington Retirement Board (ARB) strives to accurately issue retirement benefits to its members and beneficiaries within the parameters of Massachusetts law and regulations. ARB readily acknowledges that the members identified in the finding specific to annual unused vacation leave buyback must have their original calculations reviewed to ensure that they comport with PERAC Memo 23/2022 and G.L. c. 32, §106, and where applicable, be recalculated to include said payments retroactive to the member's effective retirement date. ARB notes that Section 106 did not define when a member "consistently participates" in such a buyback program. This was vexing as that phrase could be interpreted in many different ways. In order to offer clarity, transparency and treat all of our members in a consistent manner, ARB drafted a supplementary regulation to assist it in recalculating annual unused vacation leave buybacks. This supplementary regulation was approved by PERAC on 11/05/2024, and will be utilized in our review of the impacted calculations.
- ARB acknowledges that the members identified in the finding specific to annual EMT, Longevity and School/Education Stipend received annual payments each August, but also received a contractual payment after starting a new calendar year. We note that this issue was self-corrected by ARB staff in 2022, after reading similar findings pertaining to other systems. Appropriate adjustments will be made. It will not be a repeat finding.

#### FINAL DETERMINATION:

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

# ANNUAL STATEMENTS (as submitted)

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,					
	2021	2020	2019	2018		
Net Assets Available For Benefits:						
Cash	\$4,790,123	\$5,577,417	\$627,981	\$288,177		
Short Term Investments	0	0	6,134,009	6,135,183		
Pooled Alternative Investment Funds	526,503	732,220	1,394,864	1,719,373		
PRIT Core Fund	220,955,899	184,980,257	165,458,441	144,302,874		
Interest Due and Accrued	43	0	10,325	14,089		
Accounts Receivable	11,801	168,774	107,720	107,527		
Accounts Payable	( <u>3,169</u> )	( <u>2,724</u> )	<u>0</u>	<u>0</u>		
Total	\$ <u>226,281,200</u>	\$ <u>191,455,945</u>	\$ <u>173,733,342</u>	\$ <u>152,567,223</u>		
Fund Balances:						
Annuity Savings Fund	\$41,587,665	\$40,662,889	\$39,535,942	\$38,207,182		
Annuity Reserve Fund	9,276,553	9,033,105	8,768,386	8,518,089		
Pension Fund	941,255	800,285	1,527,478	2,210,599		
Military Service Fund	15,777	15,761	15,745	15,730		
Expense Fund	0	0	0	0		
Pension Reserve Fund	174,459,950	140,943,905	123,885,790	103,615,624		
Total	\$ <u>226,281,200</u>	\$ <u>191,455,945</u>	\$ <u>173,733,342</u>	\$ <u>152,567,223</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 2018	\$36,139,539	\$9,387,621	\$1,791,353	\$15,714	\$0	\$110,735,389	\$158,069,616
Receipts	4,750,508	263,042	13,225,256	16	1,199,148	(3,802,766)	15,635,203
Interfund Transfers	(1,812,551)	1,812,530	3,317,020	0	0	(3,316,999)	0
Disbursements	(870,314)	( <u>2,945,105</u> )	( <u>16,123,030</u> )	<u>0</u>	( <u>1,199,148</u> )	<u>0</u>	( <u>21,137,597</u> )
Ending Balance 2018	38,207,182	8,518,089	2,210,599	15,730	0	103,615,624	152,567,223
Receipts	5,038,090	262,887	13,778,198	16	1,213,627	22,870,439	43,163,257
Interfund Transfers	(2,890,032)	2,890,017	2,600,288	0	0	(2,600,272)	0
Disbursements	(819,297)	( <u>2,902,606</u> )	( <u>17,061,607</u> )	<u>0</u>	( <u>1,213,627</u> )	<u>0</u>	( <u>21,997,138</u> )
Ending Balance 2019	39,535,942	8,768,386	1,527,478	15,745	0	123,885,790	173,733,342
Receipts	4,746,733	271,370	14,574,979	16	1,220,430	18,971,712	39,785,240
Interfund Transfers	(3,068,943)	3,068,873	1,913,668	0	0	(1,913,598)	0
Disbursements	(550,842)	( <u>3,075,524</u> )	( <u>17,215,840</u> )	<u>0</u>	( <u>1,220,430</u> )	<u>0</u>	(22,062,636)
Ending Balance 2020	40,662,889	9,033,105	800,285	15,761	0	140,943,905	191,455,945
Receipts	4,746,997	262,032	15,413,396	16	1,419,693	35,915,201	57,757,334
Interfund Transfers	(3,209,273)	3,205,664	2,402,764	0	0	(2,399,155)	0
Disbursements	(612,948)	(3,224,248)	(17,675,190)	<u>0</u>	<u>(1,419,693)</u>	<u>0</u>	(22,932,079)
Ending Balance 2021	\$ <u>41,587,665</u>	\$ <u>9,276,553</u>	\$ <u>941,255</u>	\$ <u>15,777</u>	\$ <u>0</u>	\$ <u>174,459,950</u>	\$ <u>226,281,200</u>

### STATEMENT OF RECEIPTS

	F	FOR THE PERIOD E	NDING DECEMBER	R 31,
	2021	2020	2019	2018
Annuity Savings Fund:				
Members Deductions	\$4,384,987	\$4,259,854	\$4,124,303	\$3,852,471
Transfers from Other Systems	270,768	381,304	756,856	825,539
Member Make Up Payments and Re-deposits	23,281	27,778	33,422	28,689
Member Payments from Rollovers	16,625	4,117	63,544	817
Investment Income Credited to Member Accounts	51,335	73,680	59,965	42,992
Sub Total	4,746,997	4,746,733	5,038,090	<u>4,750,508</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve				
Fund	262,032	271,370	262,887	263,042
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	577,742	557,330	531,589	494,483
Received from Commonwealth for COLA and				
Survivor Benefits	200,622	204,541	223,583	384,412
Pension Fund Appropriation	14,627,054	13,799,108	13,018,026	12,339,361
Settlement of Workers' Compensation Claims	7,978	14,000	5,000	7,000
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	15,413,396	14,574,979	13,778,198	13,225,256
Military Service Fund:				
Investment Income Credited to the Military Service				
Fund	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>1,419,693</u>	1,220,430	<u>1,213,627</u>	<u>1,199,148</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	6.846	3.646	14.253	13.355
Interest Not Refunded	5,689	23.584	9.045	1,455
Excess Investment Income	35,902,667	18,944,481	22,847,141	(3,817,576
Sub Total	35,915,201	18,971,712	22,870,439	( <u>3,802,766</u>
Total Receipts, Net	\$57,757,334	\$39,785,240	\$43,163,257	\$15,635,203

### STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,				
	2021	2020	2019	2018	
Annuity Savings Fund:					
Refunds to Members	\$169,353	\$259,394	\$256,533	\$185,471	
Transfers to Other Systems	443,595	291,447	562,765	684,842	
Sub Total	612,948	550,842	819,297	870,314	
Annuity Reserve Fund:					
Annuities Paid	3,224,248	3,042,597	2,842,193	2,883,185	
Option B Refunds	0	32,927	60,413	61,920	
Sub Total	3,224,248	3,075,524	2,902,606	2,945,105	
Pension Fund:					
Pensions Paid:					
Regular Pension Payments	11,655,184	11,288,683	10,855,856	10,331,786	
Survivorship Payments	1,132,084	1,097,732	1,127,922	1,102,340	
Ordinary Disability Payments	210,694	250,507	187,302	187,718	
Accidental Disability Payments	3,426,506	3,362,340	3,202,103	3,197,241	
Accidental Death Payments	431,164	473,872	501,406	581,229	
Section 101 Benefits	308,228	275,021	258,704	255,452	
3 (8) (c) Reimbursements to Other Systems	511,330	467,685	928,315	467,265	
Sub Total	17,675,190	17,215,840	<u>17,061,607</u>	16,123,030	
Expense Fund:	05 500	05 500	05 500	00.050	
Board Member Stipend	25,500	25,500	25,500	20,250	
Salaries Benefits	186,112	176,260	172,588	169,820	
	45,238	42,993	41,693	38,580	
Management Fees	1,014,726	816,639	815,270	812,050	
Custodial Fees	17,890	20,136	15,108	15,108	
Investment Consultant Fees	28,000	28,000	27,250	25,000	
Legal Expenses	208 485	930 519	3,500 188	508 91	
Medical Expenses Fiduciary Insurance	12,671	11,883	11,641	11,125	
Service Contracts	40,583	38,451	37,212	54,577	
	18,732	15.716	15,113	15.113	
Rent Expense Professional Services	1,500	15,716	15,113	5,675	
Actuarial Services	14,175	22.475	30.350	10,975	
Accounting Services	4,000	4,000	4,000	4,000	
Education And Training	1,075	4,000 1,988	2,374	1,538	
Administrative Expenses	8,798	13.825	10,408	12,290	
Furniture and Equipment	0,790	1,114	0	1,448	
Service Contracts	0	0	1,433	0	
Travel	0	0	0	999	
Sub Total	1,419,693	1,220,430	1,213,627	1,199,148	
		<u> </u>	<u> </u>		
Total Disbursements	\$ <u>22,932,079</u>	\$ <u>22,062,636</u>	\$ <u>21,997,138</u>	\$ <u>21,137,597</u>	

### **INVESTMENT INCOME**

FOR THE PERIOD ENDING DECEMBER 31,					
	2021	2020	2019	2018	
Investment Income Received From:					
Cash	\$1,404	\$47,689	\$3,034	\$1,219	
Short Term Investments	0	0	160,103	115,134	
Equities	7	121	0	0	
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>11,104</u>	<u>0</u>	
Total Investment Income	<u>1,411</u>	47,810	<u>174,241</u>	<u>116,353</u>	
Plus:					
Realized Gains	15,599,347	8,013,355	0	0	
Unrealized Gains	26,845,392	34,216,950	28,353,608	12,070,099	
Interest Due and Accrued - Current Year	<u>43</u>	<u>0</u>	10,325	14,089	
Sub Total	42,444,782	42,230,305	28,363,933	12,084,187	
Less:					
Realized Loss	0	1,065,591	0	0	
Unrealized Loss	4,810,451	20,692,222	4,140,449	14,506,814	
Interest Due and Accrued - Prior Year	<u>0</u>	10,325	14,089	6,104	
Sub Total	<u>4,810,451</u>	21,768,138	<u>4,154,538</u>	<u>14,512,918</u>	
Net Investment Income	37,635,742	20,509,977	<u>24,383,636</u>	( <u>2,312,378</u> )	
Income Required:					
Annuity Savings Fund	51,335	73,680	59,965	42,992	
Annuity Reserve Fund	262,032	271,370	262,887	263,042	
Military Service Fund	16	16	16	16	
Expense Fund	<u>1,419,693</u>	1,220,430	1,213,627	<u>1,199,148</u>	
Total Income Required	1,733,075	1,565,496	<u>1,536,495</u>	<u>1,505,198</u>	
Net Investment Income	<u>37,635,742</u>	20,509,977	<u>24,383,636</u>	( <u>2,312,378</u> )	
Less: Total Income Required	<u>1,733,075</u>	<u>1,565,496</u>	<u>1,536,495</u>	<u>1,505,198</u>	
Excess Income (Loss) To The Pension					
Reserve Fund	\$35,902,667	\$ <u>18,944,481</u>	\$22,847,141	(\$3,817,576)	

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

### (percentages by category)

	AS OF DECEME	3ER 31, 2021
	MARKET VALUE	OF TOTAL ASSETS
Cash	\$4,790,123	2.1%
Pooled Alternative Investment Funds	526,503	0.2%
PRIT Core Fund	<u>220,955,899</u>	<u>97.7</u> %
Grand Total	<u>\$226,272,525</u>	<u>100.0</u> %

For the year ending December 31, 2021, the rate of return for the investments of the Arlington Retirement System was 20.01%. For the ten-year period ending December 31, 2021, the rate of return for the investments of the Arlington Retirement System averaged 10.59%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Arlington Retirement System was 8.83%.

The composite rate of return for all retirement systems for the year ending December 31, 2021 was 19.51%. For the ten-year period ending December 31, 2021, the composite rate of return for the investments of all retirement systems averaged 10.86%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.58%.

#### 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 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 \$1,010.28 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 \$1,010.28 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.

<u>Cash</u> 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.

<u>Investments</u> 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. <u>Realized gain or loss</u> is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. <u>Dividend</u> income is generally recorded when received. <u>Interest</u> 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 <u>unrealized gains and losses</u> 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 <u>Annuity Reserve Fund</u> 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 <u>Pension Reserve Fund</u> 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 <u>Investment Income Account</u> 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, Esq.	Serves until successo	r is appointed
Elected Member:	Robert Jefferson	Term Expires:	09/30/2026
Elected Member:	Kenneth Hughes, Chairperson	Term Expires:	09/30/2026
Appointed Member:	Alfred Fantini	Term Expires:	01/31/2027

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 <a href="https://www.mass.gov/arlington-retirement-board-regulations">https://www.mass.gov/arlington-retirement-board-regulations</a>.

### MEMBERSHIP EXHIBIT

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Retirement in Past Years										
Superannuation	15	22	6	20	17	16	18	23	27	30
Ordinary Disability	1	2	0	0	0	0	0	0	0	0
Accidental Disability	1	3	2	2	1	2	1	1	1	1
Total Retirements	17	27	8	22	18	18	19	24	28	31
Total Retirees, Beneficiaries and Survivors	637	626	644	601	601	597	599	598	597	620
Total Active Members	682	769	710	703	737	759	814	858	746	818
Pension Payments										
Superannuation	\$9,884,954	\$9,910,308	\$9,707,704	\$9,927,528	\$10,263,572	\$10,413,007	\$10,331,786	\$10,855,856	\$11,288,683	\$11,655,184
Survivor/Beneficiary Payments	716,681	775,090	850,922	887,575	931,494	1,048,357	1,102,340	1,127,922	1,097,732	1,132,084
Ordinary Disability	142,541	188,036	183,459	158,589	147,103	150,582	187,718	187,302	250,507	210,694
Accidental Disability	2,675,429	2,672,495	2,772,342	2,977,839	2,969,803	3,008,195	3,197,241	3,202,103	3,362,340	3,426,506
Other	1,136,653	1,222,474	1,226,778	<u>1,119,306</u>	<u>1,129,787</u>	<u>1,045,022</u>	1,303,946	1,688,425	<u>1,216,579</u>	1,250,721
Total Payments for Year	\$ <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>15,665,164</u>	\$ <u>16,123,030</u>	\$ <u>17,061,607</u>	\$ <u>17,215,840</u>	\$ <u>17,675,190</u>

#### LEASED PREMISES

The Arlington Retirement Board leases approximately 750 square feet of space for its offices located at 27 Maple Street Suite 203, Arlington, MA. They signed a three-year lease term commencing November 1, 2020. The lease allowed for a two-year extension. The Board is currently leasing under the extension which will expire on November 1, 2025. The landlord is the Arlington Redevelopment Board.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2021:

For the year ending:	<u>Annual Rent</u>
2022	\$18,732
2023	18,732
2024	19,107
2025 (through October)	<u>16,150</u>
Total future minimum lease payments required	<u>\$72,721</u>

#### OTHER POST EMPLOYMENT BENEFITS (OPEB)

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 1, 2022 and updated to June 30, 2023 in accordance with GASB Statement No. 74. The components of the net OPEB liability of the Town of Arlington at June 30, 2023, were as follows:

Total OPEB liability	\$216,048,907
Less: OPEB plan's fiduciary net position	<u>21,798,624</u>
Net OPEB liability	\$ <u>194,250,283</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability	10.09%

#### ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	Market Value with Payables and Receivables
Discount Rate	4.16% per year, net of investment expenses
Healthcare Cost Trend Rate	7.5% decreasing to 5.0%
Salary Increases	Select and Ultimate, based on group and service

#### PLAN MEMBERSHIP

Actives	1,329
Retirees and Beneficiaries	855
Inactives	<u>21</u>
Total	<u>2,205</u>

#### **OPEB Schedules - GASB Disclosure Information**

The Schedule of Changes in the Town of Arlington's Net OPEB Liability and related Ratios presents multi-year 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
LIABILTIY AND RELATED RATIOS
(Amounts in Thousands)

		FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Total OPEB Liability								
Service Cost	\$	9,534	\$ 14,623	\$ 14,360	\$ 9,224	\$ 8,456	\$ 8,639	\$ 8,975
Interest		8,628	7,219	6,772	8,624	8,618	10,228	9,135
Differences between expected and actual experience		-	(11,201)	-	1,341	(5,652)	(41,501)	-
Changes of assumptions		(5,140)	(57,546)	(2,368)	31,172	6,899	(8,507)	-
Benefit payments	-	(7,354)	(7,233)	(6,739)	(6,361)	(6,405)	(6,370)	(6,797)
Net change in Total OPEB liability	\$	5,668	\$ (54,138)	\$ 12,024	\$ 44,000	\$ 11,915	\$ (37,511)	\$ 11,314
Total OPEB Liability - beginning	-	210,381	264,518	252,494	208,494	196,579	234,089	222,775
Total OPEB Liability- ending	\$	216,049	\$ 210,381	\$ 264,518	\$ 252,494	\$ 208,494	\$ 196,579	\$ 234,089
Plan Fiduciary Net Position								
Contributions- employer	\$	8,268	\$ 8,168	\$ 7,676	\$ 7,298	\$ 7,307	\$ 7,270	\$ 7,640
Net Investment Income		1,806	(3,125)	4,466	407	766	753	1,174
Benefit payments		(7,354)	(7,233)	(6,739)	(6,361)	(6,405)	(6,370)	(6,797)
Administrative expenses	-	-						-
Net change in Plan Fiduciary Net Position	\$	2,720	\$ (2,190)	\$ 5,402	\$ 1,344	\$ 1,668	\$ 1,653	\$ 2,017
Plan Fiduciary Net Position - beginning	-	19,078	21,268	15,866	14,522	12,854	11,201	9,184
Plan Fiduciary Net Position - ending	\$	21,799	\$ 19,078	\$ 21,268	\$ 15,866	\$ 14,522	\$ 12,854	\$ 11,201
Net OPEB Liability - ending	\$	194,250	\$ 191,302	\$ 243,250	\$ 236,628	\$ 193,972	\$ 183,725	\$ 222,888
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		10.09%	9.07%	8.04%	6.28%	6.97%	6.54%	4.79%
Covered-Employee Payroll	\$	106,357	\$ 109,327	\$ 79,793	\$ 84,216	\$ 72,168	\$ 69,727	\$ 68,333
Net OPEB Liability as a Percentage of Covered-Employee Payroll		182.64%	174.98%	304.85%	280.98%	268.78%	263.49%	326.18%
Money-Weighted Rate of Return		9.09%	-14.12%	26.72%	2.64%	5.33%	6.24%	11.52%

	Actuarially	Contributions in relation to the Actuarially	Contribution	Covered	Contributions as a percentage of Covered-
	Determined	Determined	Deficiency /	Employee-	Employee
Measurement	Contribution	Contribution	(Excess)	Payroll	Payroll
Date	(a)	(b)	(a-b)	( c )	(b/c)
6/30/2023	\$8,267,667	\$8,267,667	\$0	\$106,357,778	7.77%
6/30/2022	\$8,168,473	\$8,168,473	\$0	\$109,327,561	7.47%
6/30/2021	\$7,676,012	\$7,676,012	\$0	\$79,793,330	9.62%
6/30/2020	\$7,298,071	\$7,298,071	\$0	\$84,216,383	8.67%
6/30/2019	\$7,342,216	\$7,342,216	\$0	\$72,168,412	10.17%
6/30/2018	\$12,177,000	\$7,269,761	\$4,907,239	\$69,727,934	10.43%
6/30/2017	\$18,409,000	\$7,665,000	\$10,744,000	\$68,333,400	11.22%

#### SCHEDULE OF TOWN OF ARLINGTON'S CONTRIBUTIONS

#### SCHEDULE OF INVESTMENT RETURNS

Fiscal Year	Annual Money-Weighted Rate of Return
2023	9.09%
2022	-14.12%
2021	26.72%
2020	2.64%
2019	5.33%
2018	6.24%
2017	11.61%

COMMONWEALTH OF MASSACHUSETTS Public Employee Retirement Administration Commission Five Middlesex Avenue, Suite 304 | Somerville, MA 02145 Phone: 617-666-4446 | Fax: 617-628-4002 Web: www.mass.gov/perac

