

# PERAC AUDIT REPORT



Blue Hills  
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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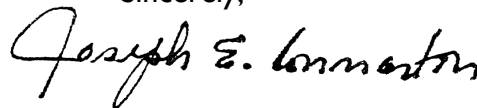
September 11, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Blue Hills Regional School Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

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

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Retirement Allowance Calculations:**

We found incorrect calculations of retirement allowances for two new retirees which resulted in overpayment of benefits. The first retiree's allowance calculation included \$3,000 of Board Stipends in the 2012 annual earnings. However, only \$1,500 was paid in 2012 since Board Stipends started in July. The second retiree's allowance calculation used the total annual earnings paid which included sick/vacation time payout and uniform pay. Regular compensation does not include these pay types pursuant to 840 CMR 15.03(3)(f).

**Recommendation:** The Retirement Board should review both of these retirement allowance calculations in detail and make all necessary corrections.

### **Board Response:**

The Retirement Board agrees with the finding and has corrected the allowances of the two cited retirees.

## **2. Buybacks of Prior Non-Membership Service:**

We found incorrect calculations of buybacks of prior non-membership service for two active members. One member's buyback calculation sheet was missing. It appears that interest was charged only for the payment period of the buyback, but interest should have been charged for the full creditable service purchased. Therefore, the member underpaid interest on the buyback.

The other member's buyback used the total annual compensation from the member's 1099 forms and other Social Security earnings for the calculation. Some of the compensation used included pay that is ineligible for retirement, such as reimbursements of expenses and Special Assignment pay which is a type of overtime. Regular compensation does not include reimbursements of expenses and Special Assignment pay pursuant to 840 CMR 15.03(3)(f). Also, this buyback calculation did not include the additional 2% deductions for regular compensation over \$30,000 per year.

**Recommendation:** The Retirement Board should review both of these buyback calculations in detail and make all necessary corrections.

### **Board Response:**

This issue dates back to 1998 and has survived numerous audits and is not exactly as clear as it appears. Also, during a 2004 audit PERAC advised that this same member, along with another (since retired) member of another system, be subject to an "always extra 2%" deduction rate which was implemented. What was not shared by PERAC to the system was the September 2, 2010 letter from Deputy Executive Director Martin to the Essex Regional Retirement Board addressing that issue. This system will accept PERAC's revised calculation on the buyback without comment though both members will receive a net refund when the erroneously over deducted 2% amounts are calculated into the equation.

The other member's buyback used best attempts to determine salary when some documentation was missing from prior years. The system has since re-attempted to better determine proper base compensation and will revise the buyback amount and await PERAC's six month follow up review.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **FINAL DETERMINATION:**

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



## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2016	2015	2014	2013
<b>Net Assets Available For Benefits:</b>				
Cash	\$69,260	\$1,712	\$2,564	\$36,498
PRIT Cash Fund	100,070	30,019	60,011	280,009
PRIT Core Fund	9,864,980	9,617,472	9,801,804	8,944,939
Accounts Receivable	28,632	38,971	49,311	0
Accounts Payable	(2,950)	0	0	0
<b>Total</b>	<u>\$10,059,992</u>	<u>\$9,688,174</u>	<u>\$9,913,689</u>	<u>\$9,261,447</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$1,973,835	\$1,878,890	\$1,852,263	\$1,637,569
Annuity Reserve Fund	785,738	844,019	787,941	758,628
Pension Fund	564,895	861,832	1,161,259	1,374,099
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>6,735,523</u>	<u>6,103,433</u>	<u>6,112,226</u>	<u>5,491,150</u>
<b>Total</b>	<u>\$10,059,992</u>	<u>\$9,688,174</u>	<u>\$9,913,689</u>	<u>\$9,261,447</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
<b>Beginning Balance (2013)</b>	<b>\$1,657,648</b>	<b>\$659,971</b>	<b>\$1,303,706</b>	<b>\$0</b>	<b>\$4,396,023</b>	<b>\$8,017,348</b>
Receipts	222,448	20,749	807,180	89,131	1,095,127	2,234,634
Interfund Transfers	(225,984)	225,984	0	0	0	0
Disbursements	(16,543)	(148,076)	(736,787)	(89,131)	0	(990,536)
<b>Ending Balance (2013)</b>	<b>1,637,569</b>	<b>758,628</b>	<b>1,374,099</b>	<b>0</b>	<b>5,491,150</b>	<b>9,261,447</b>
Receipts	391,245	22,645	576,407	92,151	621,076	1,703,523
Interfund Transfers	(162,446)	162,446	0	0	0	0
Disbursements	(14,105)	(155,778)	(789,247)	(92,151)	0	(1,051,280)
<b>Ending Balance (2014)</b>	<b>1,852,263</b>	<b>787,941</b>	<b>1,161,259</b>	<b>0</b>	<b>6,112,226</b>	<b>9,913,689</b>
Receipts	261,845	23,871	582,379	93,000	(8,793)	952,303
Interfund Transfers	(200,249)	200,249	0	0	0	0
Disbursements	(34,969)	(168,043)	(881,807)	(93,000)	0	(1,177,818)
<b>Ending Balance (2015)</b>	<b>1,878,890</b>	<b>844,019</b>	<b>861,832</b>	<b>0</b>	<b>6,103,433</b>	<b>9,688,174</b>
Receipts	229,542	24,605	588,671	95,522	632,090	1,570,430
Interfund Transfers	(98,391)	98,391	0	0	0	0
Disbursements	(36,206)	(181,277)	(885,607)	(95,522)	0	(1,198,612)
<b>Ending Balance (2016)</b>	<b>\$1,973,835</b>	<b>\$785,738</b>	<b>\$564,895</b>	<b>\$0</b>	<b>\$6,735,523</b>	<b>\$10,059,992</b>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
<b>Annuity Savings Fund:</b>				
Members Deductions	\$227,288	\$221,386	\$211,241	\$199,638
Transfers from Other Systems	0	29,753	100,312	0
Member Make Up Payments and Re-deposits	0	7,728	78,108	21,264
Investment Income Credited to Member Accounts	<u>2,255</u>	<u>2,978</u>	<u>1,584</u>	<u>1,546</u>
Sub Total	<u>229,542</u>	<u>261,845</u>	<u>391,245</u>	<u>222,448</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>24,605</u>	<u>23,871</u>	<u>22,645</u>	<u>20,749</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	93,854	113,802	131,324	357,662
Received from Commonwealth for COLA and Survivor Benefits	24,343	17,087	7,650	30,339
Pension Fund Appropriation	<u>470,473</u>	<u>451,490</u>	<u>437,432</u>	<u>419,179</u>
Sub Total	<u>588,671</u>	<u>582,379</u>	<u>576,407</u>	<u>807,180</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>95,522</u>	<u>93,000</u>	<u>92,151</u>	<u>89,131</u>
<b>Pension Reserve Fund:</b>				
Excess Investment Income (Loss)	<u>632,090</u>	(8,793)	<u>621,076</u>	<u>1,095,127</u>
<b>Total Receipts, Net</b>	<u>\$1,570,430</u>	<u>\$952,303</u>	<u>\$1,703,523</u>	<u>\$2,234,634</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$14,614	\$27,954	\$435	\$7,396
Transfers to Other Systems	<u>21,592</u>	<u>7,015</u>	<u>13,670</u>	<u>9,146</u>
Sub Total	<u>36,206</u>	<u>34,969</u>	<u>14,105</u>	<u>16,543</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	<u>181,277</u>	<u>168,043</u>	<u>155,778</u>	<u>148,076</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	850,500	787,899	736,185	689,805
Survivorship Payments	26,221	34,071	48,103	46,982
3 (8) (c) Reimbursements to Other Systems	<u>8,887</u>	<u>59,837</u>	<u>4,958</u>	<u>0</u>
Sub Total	<u>885,607</u>	<u>881,807</u>	<u>789,247</u>	<u>736,787</u>
<b>Expense Fund:</b>				
Board Member Stipend	15,000	15,000	15,000	15,000
Salaries	17,198	16,860	16,212	15,548
Travel Expenses	149	28	0	95
Administrative Expenses	6,844	6,437	6,241	8,211
Education and Training	900	810	810	0
Management Fees	51,765	50,356	50,530	47,076
Service Contracts	2,950	2,811	2,678	2,550
Fiduciary Insurance	<u>716</u>	<u>697</u>	<u>680</u>	<u>651</u>
Sub Total	<u>95,522</u>	<u>93,000</u>	<u>92,151</u>	<u>89,131</u>
<b>Total Disbursements</b>	<b><u>\$1,198,612</u></b>	<b><u>\$1,177,818</u></b>	<b><u>\$1,051,280</u></b>	<b><u>\$990,536</u></b>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
<b>Investment Income Received From:</b>				
Cash	\$148	\$25	\$59	\$28
Pooled or Mutual Funds	<u>278,166</u>	<u>256,084</u>	<u>268,402</u>	<u>245,692</u>
<b>Total Investment Income</b>	<u>278,313</u>	<u>256,109</u>	<u>268,461</u>	<u>245,720</u>
<b>Plus:</b>				
Realized Gains	273,393	357,440	424,784	395,222
Unrealized Gains	<u>839,677</u>	<u>509,071</u>	<u>611,086</u>	<u>1,019,239</u>
Sub Total	<u>1,113,070</u>	<u>866,511</u>	<u>1,035,870</u>	<u>1,414,461</u>
<b>Less:</b>				
Realized Loss	(5,466)	(4,690)	0	0
Unrealized Loss	<u>(631,445)</u>	<u>(1,006,874)</u>	<u>(566,876)</u>	<u>(453,628)</u>
Sub Total	<u>(636,911)</u>	<u>(1,011,564)</u>	<u>(566,876)</u>	<u>(453,628)</u>
<b>Net Investment Income</b>	<u>754,472</u>	<u>111,056</u>	<u>737,456</u>	<u>1,206,552</u>
<b>Income Required:</b>				
Annuity Savings Fund	2,255	2,978	1,584	1,546
Annuity Reserve Fund	24,605	23,871	22,645	20,749
Expense Fund	<u>95,522</u>	<u>93,000</u>	<u>92,151</u>	<u>89,131</u>
<b>Total Income Required</b>	<u>122,382</u>	<u>119,849</u>	<u>116,380</u>	<u>111,426</u>
Net Investment Income	<u>754,472</u>	<u>111,056</u>	<u>737,456</u>	<u>1,206,552</u>
Less: Total Income Required	<u>122,382</u>	<u>119,849</u>	<u>116,380</u>	<u>111,426</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$632,090</u>	<u>(\$8,793)</u>	<u>\$621,076</u>	<u>\$1,095,127</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$69,260	0.7%
PRIT Cash Fund	100,070	1.0%
PRIT Core Fund	<u>9,864,980</u>	<u>98.3%</u>
<b>Grand Total</b>	<u><b>\$10,034,310</b></u>	<u><b>100.0%</b></u>

For the year ending December 31, 2016, the rate of return for the investments of the Blue Hills Regional School Retirement System was 8.03%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Blue Hills Regional School Retirement System averaged 9.11%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Blue Hills Regional School Retirement System was 8.59%.

The composite rate of return for all retirement systems for the year ending December 31, 2016 was 8.08%. For the five-year period ending December 31, 2016, the composite rate of return for the investments of all retirement systems averaged 9.12%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Blue Hills Regional School Retirement System effectively rescinded their supplementary investment regulations upon fully investing with the PRIT Fund.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Blue Hills Regional School 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.

#### **Group I:**

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



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

In addition, members of Group 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 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

There is no mandatory retirement age for employees in Group I.

### 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
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group I.

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 I.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 I employees who retire at or after age 65. A .1% 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 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. 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. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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”.

**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 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 \$871.56 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

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

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$871.56 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 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. 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Blue Hills Regional School Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### **Membership:**

May 23, 2013

The following shall apply specifically to non-instructional employees.

Full-time employees: Membership in the retirement system is mandatory for all non-instructional employees who are regularly employed on a full-time basis.

Permanent Part-Time Employees: Permanent part-time employees working a minimum of 20 hours per week on a permanent basis must become members of the system. Creditable service shall be calculated on a prorated basis as it relates to a full-time position.

“Permanent part-time employee” includes any employee who is employed at least 20 hours per week in a single position, or in more than one position so that when hours of employment are added together those hours equal at least 20 hours per week, or an aggregate of 860 hours during the course of a school year.

Part-time Employees who work on average less than 20 hours per week, 860 hours per school year, during the lesser of: the period of their employment or one year shall not be eligible for membership in the retirement system.

Contract Employees: “Contract employees” are typically those hired to perform a specific set of duties for a limited time (less than one school year); that will perform tasks above the capability or experience level of existing personnel; or hired to fulfill essential duties when coverage by existing staff is not feasible due to vacation schedules, illness, job vacancy, special projects, etc. Contract employees shall not be eligible for membership in the retirement system.

Consultants (Fee for Service): “Consultants” are those hired to perform specialized services for a limited time that are beyond the expertise or capability of existing personnel. Consultants shall not be eligible for membership in the retirement system.

On-Call Employees: “On-Call Employees” hired to fulfill the temporary clerical/other needs of the school. “On-call employees” are hired on an annual contract basis, (with no notice termination clause for both parties), that commences on the date of hire and ends on the one year anniversary of the date of hire. “On-call Employees” shall not be eligible for membership in the retirement system.

Once a Member, Always a Member: Once a person is designated as a member of the retirement system, membership is not adversely impacted in the event a member later works less than 20 hours per week or less than 860 hours in the aggregate during the school year.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### **Creditable Service:**

As of December 6, 2010, the Retirement System shall grant one full year of creditable service for retirement purposes to those employees of the Blue Hills Regional Vocational School employed on a full-time basis or permanent part-time basis, as defined in their specific category of work, for at least a full academic year provided that such annual employment period consists of at least one hundred and eighty days. These employees must work the entire contract year to be granted the full year of creditable service otherwise creditable service shall be pro-rated.

Food Service Workers (covered by the Food Service Workers Salary Schedule) who work 20 or more hours per week and who are under contract for the entire school year shall receive a full year of creditable service for each full school-year worked.

Part-time employees who become full-time employees may be eligible to purchase creditable service, which was earned while employed at less than part-time, (20 hours per week and therefore ineligible for membership in the retirement system); at the discretion and eventual vote of the retirement board (provided that creditable service shall be granted) based on actual service rendered.

Make-Up Payments: The purchase of “prior creditable service,” as defined by MGL chapter 32, may be in a lump sum, or in periodic installment payments as agreed to by the Board, at any time prior to retirement.

Employees of a temporary nature who were formerly deemed ineligible for membership in any government unit, which has accepted MGL chapter 32 may purchase past service upon becoming a permanent employee of the Blue Hills Regional Vocational High School.

Each member who requests permission to make-up payments for their previous employment shall provide the retirement system with a verified list of earnings by period, by calendar year, not including any overtime or bonuses, so that a make-up payment can be calculated.

### **Miscellaneous:**

Deferred Compensation: Employees not eligible for membership in the Blue Hills Retirement System must contribute to (Massachusetts Deferred Compensation Plan) the alternative defined contribution system of the board.

### **Travel Regulations:**

The Blue Hills Regional School Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/board-info/profiles/travel/bluehillstravelreg.html>.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2016.

The actuarial liability for active members was	\$4,813,539
The actuarial liability for inactive members was	\$124,924
The actuarial liability for retired members was	<u>8,881,272</u>
The total actuarial liability was	\$13,819,735
System assets as of that date were (actuarial value)	<u>9,884,572</u>
The unfunded actuarial liability was	<u>\$3,935,163</u>
The ratio of system's assets to total actuarial liability was	71.5%
As of that date the total covered employee payroll was	\$2,250,041

The normal cost for employees on that date was 8.9% of payroll  
 The normal cost for the employer was 4.9% of payroll

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

Investment Return: 7.50% per annum  
 Rate of Salary Increase: Varies by Service and Group

### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability * ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2016	\$9,884,572	\$13,819,735	\$3,935,163	71.5%	\$2,250,041	174.9%
1/1/2014	\$8,733,768	\$12,293,991	\$3,560,223	71.0%	\$2,135,012	166.8%
1/1/2012	\$7,788,430	\$11,352,749	\$3,564,319	68.6%	\$1,831,355	194.6%
1/1/2010	\$6,532,122	\$10,081,910	\$3,549,788	64.8%	\$1,832,150	193.7%
1/1/2008	\$7,362,202	\$9,440,988	\$2,078,786	78.0%	\$1,824,128	114.0%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Retirement in Past Years</b>										
Superannuation	2	2	1	2	3	0	3	4	2	2
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
<b>Total Retirements</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>2</b>
<b>Total Retirees, Beneficiaries and Survivors</b>	<b>50</b>	<b>51</b>	<b>52</b>	<b>54</b>	<b>55</b>	<b>52</b>	<b>54</b>	<b>55</b>	<b>53</b>	<b>53</b>
Total Active Members	46	46	42	49	46	47	47	47	49	51
<b>Pension Payments</b>										
Superannuation	\$512,947	\$543,563	\$577,813	\$605,131	\$641,723	\$647,124	\$689,805	\$736,185	\$787,899	\$850,500
Survivor/Beneficiary Payments	42,462	43,720	48,369	49,777	51,326	55,599	46,982	48,103	34,071	26,221
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Other	68,257	61,364	0	0	0	0	0	4,958	59,837	8,887
<b>Total Payments for Year</b>	<b><u>\$623,666</u></b>	<b><u>\$648,647</u></b>	<b><u>\$626,182</u></b>	<b><u>\$654,908</u></b>	<b><u>\$693,049</u></b>	<b><u>\$702,723</u></b>	<b><u>\$736,787</u></b>	<b><u>\$789,247</u></b>	<b><u>\$881,807</u></b>	<b><u>\$885,607</u></b>





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# PERAC

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

September 6, 2019

Charles Gisondi, Chairman  
Blue Hills Regional Retirement System  
800 Randolph Street  
Canton, MA 02021

**REFERENCE:** Report of the Examination of the Blue Hills Regional Retirement System for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairman Gisondi:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Blue Hills Regional Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

**1. The Audit Report found incorrect calculations of retirement allowances for two new retirees which resulted in overpayment of benefits.**

**Follow-up Result:** The Board recalculated the retirement allowances and voted to apply the Needham Bill waiver outlined in Ch. 32, section 20(5)(c)(3) for both miscalculations regarding overpayments on the condition that both members file affidavits. We were provided with affidavits from both retirees. The correct retirement allowance was adjusted in the April 30, 2018 retiree payroll for the first retiree and in the July 31, 2018 retiree payroll for the second retiree. This issue is resolved.

**2. The Audit Report found incorrect calculations of buybacks of prior non-membership service for two active members.**

**Follow-up Result:** Both buybacks were recalculated and corrections were made in September 2018 for the first active member and in December 2018 for the second active member. This issue is resolved.



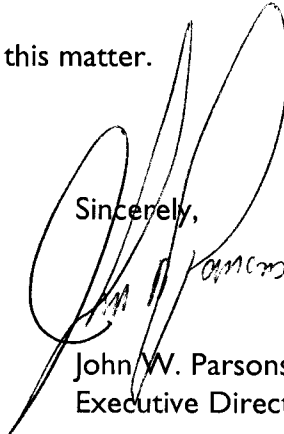
September 6, 2019  
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The additional matters discussed have been reviewed and most have been resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Blue Hills Regional Retirement System to correct the issues from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Parsons". The signature is written in a cursive style with a large, sweeping initial "J".

John W. Parsons, Esq.  
Executive Director

JWP/tal

cc: Blue Hills Regional Retirement System Members