Chelsea
Retirement System
Audit Report
JAN. 1, 2013 - DEC. 31, 2016

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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June 5, 2020

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Chelsea Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our review were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that travel expenses were properly documented and accounted for, 4) that retirement contributions are accurately deducted, 5) that retirement allowances were correctly calculated, 6) that required member documentation is maintained, 7) that appropriations certified by PERAC have been paid to the retirement system, and 8) that refunds issued by the system were correctly calculated.

To achieve these objectives, we inspected certain records of the Chelsea Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash balances, and tested a sample of travel expenses for Board approvals, supporting documentation and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over $30,000. We tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness. We reviewed appropriations received and compared to PERAC appropriation letters for the fiscal years during the audit period. We also tested refunds issued during the audit period and recalculated the interest portion of the refunds tested.

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 exceptions noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Ernie Calavritinos, Michelle Lastra, and Alice Munafo, who conducted this examination, and express my appreciation to the Board and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons

John W. Parsons, Esq.
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Retirement Deductions/Regular Compensation:

The following errors were found during the audit related to either member contributions or regular compensation:

- Housing Authority employee deductions are hard coded into the payroll software. Therefore, when employees do not work their full 40 hours there is an overpayment of deductions.
- Housing Authority on-call pay does not have deductions withheld. This pay meets the requirements of regular compensation found in 840 CMR 15.03.
- City of Chelsea employees who received a separate longevity pay did not have the additional 2% withholding calculated correctly.
- Deductions were withheld from a school employee who worked additional hours on an as-needed basis. Since these hours are not pre-determined the pay is not regular compensation.
- The Fire Department's Station Detail pay, which is $20 for each time a firefighter's assignment changes from one fire station to another mid-shift, has deductions withheld. This pay does not meet the requirements of regular compensation found in 840 CMR 15.03.

Recommendation: Board staff must work with the payroll departments of the City, School, and Housing Authority to correctly calculate the retirement contributions in the situations cited above.

Board Response:

The Board agrees with this finding that there were issues with incorrect withholding from CHA salaries as well as concerning contractually guaranteed additional payments. The individual issues presented concerning deductions and withholdings have been addressed. Upon being advised by Board Staff of the issue with hard coding the employee deductions, the CHA Payroll Department began manually entering employees' weekly regular compensation and corresponding retirement deductions on a spreadsheet to be used for payroll purposes. Based on the Board's determinations relating to regular compensation pursuant to M.G.L. c. 32, s. 1 and 840 CMR 15.03 at its February 2020 and March 2020 meetings, Board Staff notified the CHA Payroll Department to begin withholding retirement deductions from the On-Call payments paid at a straight time rate, and notified the City's Payroll Department to stop withholding retirement deductions from the Station Detail payments. Board Staff will continue working with the City Payroll Department in regard to the 2% retirement deduction withholding matter and will research and work with the appropriate parties, including the School Payroll office, in regard to the deductions withheld from a School Department employee who worked additional hours on an as needed basis.

2. Service Purchases:

Over the last 15 years the rules governing which interest rates to use for various types of service purchases have changed. An incorrect rate was used for 5 of the active members sampled.

There were also cases where the interest charged in the year of payment did not correspond to when the payment was made.

The Board does not currently have a regulation stating how part-time service is to be pro-rated.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: Service purchases made since the first rule change effective July 1, 2005 should be reviewed. If the member did pay for the time, the amount of interest charged in the year of payment should be reviewed to verify that it goes through the end of the month of payment.

The Board should draft a regulation about calculating part-time service and submit it to PERAC for approval.

Board Response:
The Board agrees with PERAC's finding that the five service purchases identified were processed incorrectly. Four of the five service purchases were computed by former Board Staff during the period from 2005 through 2006. Board Staff is in the process of reviewing Service Purchases made since the first interest rate rule change effective July 1, 2005, and any additional services purchases found to have been computed incorrectly will be recalculated. Board Staff has informed Pension Technology Group (PTG) of the error that occurred in a 2017 buyback computed by the PTG System, resulting in the use of an incorrect interest rate and consequently a former member's overpayment. Board staff has recalculated the buyback, and the affected former member has been reimbursed. In an attempt to identify any additional refunds which may need to be reviewed due to the PTG system error, an inquiry was made by Board Staff to PTG on February 6, 2020 and again on March 10, 2020 as to when the system error originated, when it was discovered, and ultimately corrected. A response from PTG is pending. To avoid any recurrence of such errors, current Board Staff will continue their established protocol of reviewing the rules governing which interest rates apply, prior to performing each buyback or repayment calculation.

At its meeting on April 23, 2020, the Chelsea Retirement Board voted to draft a Supplementary Regulation for prorating part-time service. Once the draft is approved by the Board it will be submitted to PERAC for review and promulgation.

3. Retiree Allowance Calculations:
The following errors were found during the audit related to calculating the allowance for new retirees:

- One retired police officer did not have holiday premiums included in the three-year average salary used in the allowance calculation.
- One school employee's three-year average salary was several months short of using pay for three school years.
- One retired firefighter did not have the quarterly EMT stipend included in the three-year average salary.
- One retired elected official had an extra 11 months of creditable service.

Recommendation: These allowances should be re-calculated. Other retirees with the same positions as these should be reviewed for the same errors.

Board Response:
The Board agrees with this finding that four retirement benefits were calculated incorrectly by former Board Staff between 2013 and 2016. Board Staff is in the process of recalculating these allowances, as

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

well as performing a review of former employees who retired over this period and/ or who received these pay types over this period. If Board Staff identifies any additional allowances which were computed incorrectly, the allowances will be recalculated, and payments will be adjusted retroactively to the respective dates of retirement as necessary.

4. Refunds:

Eight out of the 28 sampled refunds were paid incorrectly. There were three overpayments totaling about $4,800, and there were five underpayments totaling about $2,000. Seven of these errors occurred in 2013 and 2014.

Recommendation: All refunds from this time period should be reviewed. Attempts should be made to either pay money owed or collect the overpayment.

Board Response:

The Board agrees with this finding that 8 refunds were processed incorrectly by former Board Staff during 2013 and 2014. Board Staff is in the process of reviewing refunds from the period of time in question. Any monies determined to be owed to the past members will be paid, and attempts will be made to recover any overpayments made to affected former members.

Current Board Staff will continue their established protocol of reviewing the rules governing which interest rates to use prior to performing each refund and rollover calculation in order to avoid such errors.

5. Monthly Financial Packet:

Board members are not receiving copies of the cash receipts, cash disbursements, adjusting journal entries, or cash reconciliations. There is also no comparison of actual spending to the budgeted amounts.

Recommendation: The cash reconciliation, along with the bank statements, should be provided to the Board members at each meeting. They should also be provided with a copy of the accounting, and at least quarterly compare the budget to actual spending.

Board Response:

To supplement the monthly trial balance and monthly detailed PRIT to general ledger reconciliation already being provided to the Board in the monthly Board packets, the Board was advised by Executive Director at the April 23, 2020 meeting that going forward, upon the closing of calendar year 2019, they will also be provided with the monthly cash receipts, cash disbursements, adjusting journal entries, bank statements, bank reconciliations and quarterly budget to actual spending reports.

Final Determination

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

ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2016	2015	2014	2013
Net Assets Available For Benefits:				
Cash	$422,454	$218,453	$844,121	$1,082,481
PRIT Cash Fund	175,320	200,109	900,102	300,040
PRIT Core Fund	138,358,531	125,859,056	120,796,922	105,598,834
Accounts Receivable	69,032	21,046	68,173	4,898,847
Accounts Payable	(381)	(198)	(166)	(166)
Total	$139,024,956	$126,298,466	$122,609,153	$111,880,036
Fund Balances:				
Annuity Savings Fund	$37,960,099	$36,807,034	$35,782,163	$34,187,828
Annuity Reserve Fund	7,002,515	6,371,019	5,975,048	6,340,307
Pension Fund	22,261,780	20,229,843	18,121,044	17,162,956
Military Service Fund	2,414	2,412	2,409	2,407
Expense Fund	0	0	0	0
Pension Reserve Fund	71,798,148	62,888,158	62,728,490	54,186,538
Total	$139,024,956	$126,298,466	$122,609,153	$111,880,036

ANNUAL STATEMENTS (as submitted) (Continued)

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 2013	$31,970,392	$6,385,943	$15,430,755	$2,404	$0	$41,024,418	$94,813,912
Receipts	3,761,795	186,265	10,215,645	2	782,254	13,162,120	28,108,082
Interfund Transfers	(925,372)	925,372	0	0	0	0	0
Disbursements	(618,987)	(1,157,273)	(8,483,444)	0	(782,254)	0	(11,041,958)
Ending Balance 2013	34,187,828	6,340,307	17,162,956	2,407	0	54,186,538	111,880,036
Receipts	3,229,241	184,350	9,785,330	2	878,258	8,044,064	22,121,245
Interfund Transfers	(1,188,241)	690,353	0	0	0	497,888	0
Disbursements	(446,665)	(1,239,962)	(8,827,243)	0	(878,258)	0	(11,392,128)
Ending Balance 2014	35,782,163	5,975,048	18,121,044	2,409	0	62,728,490	122,609,153
Receipts	3,765,282	181,710	10,999,470	2	892,105	152,018	15,990,588
Interfund Transfers	(1,500,372)	1,492,721	0	0	0	7,651	(0)
Disbursements	(1,240,038)	(1,278,460)	(8,890,671)	0	(892,105)	0	(12,301,274)
Ending Balance 2015	36,807,034	6,371,019	20,229,843	2,412	0	62,888,158	126,298,466
Receipts	3,940,382	199,739	11,427,533	2	921,409	8,909,746	25,398,812
Interfund Transfers	(1,870,492)	1,870,249	0	0	0	244	0
Disbursements	(916,825)	(1,438,492)	(9,395,596)	0	(921,409)	0	(12,672,322)
Ending Balance 2016	$37,960,099	$7,002,515	$22,261,780	$2,414	$0	$71,798,148	$139,024,956

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	$3,396,576	$3,299,109	$3,083,271	$3,122,598
Transfers from Other Systems	489,175	395,652	25,598	405,162
Member Make Up Payments and Re-deposits	10,047	15,113	5,892	82,250
Member Payments from Rollovers	0	11,977	56,044	107,102
Investment Income Credited to Member Accounts	44,583	43,430	58,436	44,684
Sub Total	3,940,382	3,765,282	3,229,241	3,761,795
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	199,739	181,710	184,350	186,265
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	111,085	201,634	7,568	104,390
Received from Commonwealth for COLA and Survivor Benefits	352,448	127,624	151,690	455,661
Pension Fund Appropriation	10,955,000	10,664,321	9,626,072	9,655,593
Settlement of Workers' Compensation Claims	9,000	0	0	0
Recovery of 91A Overearnings	0	5,890	0	0
Sub Total	11,427,533	10,999,470	9,785,330	10,215,645
Military Service Fund:				
Investment Income Credited to the Military Service Fund	2	2	2	2
Expense Fund:				
Investment Income Credited to the Expense Fund	921,409	892,105	878,258	782,254
Pension Reserve Fund:				
Federal Grant Reimbursement	1,326	2,817	13,775	34,431
Interest Not Refunded	2,790	971	10,241	4,002
Miscellaneous Income	(2,747)	4,971	4,263	9,331
Excess Investment Income	8,908,376	143,260	8,015,784	13,114,356
Sub Total	8,909,746	152,018	8,044,064	13,162,120
Total Receipts, Net	$25,398,812	$15,990,588	$22,121,245	$28,108,082

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	$286,171	$388,999	$303,463	$300,364
Transfers to Other Systems	630,654	851,039	143,202	318,624
Sub Total	916,825	1,240,038	446,665	618,987
Annuity Reserve Fund:				
Annuities Paid	1,438,492	1,245,835	1,226,763	1,151,113
Option B Refunds	0	32,625	13,199	6,160
Sub Total	1,438,492	1,278,460	1,239,962	1,157,273
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	4,974,815	4,672,185	4,554,748	4,375,575
Survivorship Payments	490,891	497,926	553,141	542,682
Ordinary Disability Payments	108,416	105,002	116,097	132,381
Accidental Disability Payments	2,157,295	2,012,727	1,981,589	1,972,361
Accidental Death Payments	1,089,554	1,152,753	1,135,190	988,732
Section 101 Benefits	221,542	160,018	161,529	171,168
3 (8) (c) Reimbursements to Other Systems	353,083	291,371	324,950	300,543
State Reimbursable COLA's Paid	0	(1,311)	0	0
Sub Total	9,395,596	8,890,671	8,827,243	8,483,444
Expense Fund:				
Board Member Stipend	16,000	17,559	16,500	16,500
Salaries	135,729	124,949	123,226	124,330
Legal Expenses	30,000	30,000	30,000	15,000
Travel Expenses	482	2,947	3,293	1,859
Administrative Expenses	21,159	15,260	44,421	46,330
Education and Training	300	1,890	810	0
Furniture and Equipment	0	0	1,371	0
Management Fees	706,215	642,776	617,614	554,936
Service Contracts	0	45,200	29,436	11,820
Fiduciary Insurance	11,525	11,525	11,586	11,480
Sub Total	921,409	892,105	878,258	782,254
Total Disbursements	$12,672,322	$12,301,274	$11,392,128	$11,041,958

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Investment Income Received From:				
Cash	$245	$258	$1,321	$1,126
Pooled or Mutual Funds	3,775,402	3,258,273	3,271,842	2,890,144
Total Investment Income	3,775,648	3,258,531	3,273,162	2,891,270
Plus:				
Realized Gains	3,733,365	4,528,434	5,187,124	4,651,831
Unrealized Gains	11,233,982	6,517,438	7,489,125	11,934,448
Sub Total	14,967,347	11,045,873	12,676,249	16,586,279
Less:				
Realized Loss	(71,659)	(60,895)	0	0
Unrealized Loss	(8,597,226)	(12,983,001)	(6,812,583)	(5,349,986)
Sub Total	(8,668,884)	(13,043,896)	(6,812,583)	(5,349,986)
Net Investment Income	10,074,111	1,260,508	9,136,829	14,127,562
Income Required:				
Annuity Savings Fund	44,583	43,430	58,436	44,684
Annuity Reserve Fund	199,739	181,710	184,350	186,265
Military Service Fund	2	2	2	2
Expense Fund	921,409	892,105	878,258	782,254
Total Income Required	1,165,734	1,117,248	1,121,045	1,013,206
Net Investment Income	10,074,111	1,260,508	9,136,829	14,127,562
Less: Total Income Required	1,165,734	1,117,248	1,121,045	1,013,206
Excess Income (Loss) To The Pension Reserve Fund	$8,908,376	$143,260	$8,015,784	$13,114,356

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2016	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$422,454	0.3%
PRIT Cash Fund	175,320	0.1%
PRIT Core Fund	138,358,531	99.6%
Grand Total	$138,956,305	100.0%

For the year ending December 31, 2016, the rate of return for the investments of the Chelsea Retirement System was 8.13%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Chelsea Retirement System averaged 9.18%. 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 Chelsea Retirement System was 7.88%.

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%.

SUMMARY OF PLAN PROVISIONS

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

SUPPLEMENTARY INFORMATION (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

SUPPLEMENTARY INFORMATION (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 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

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

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

DEFERRED VESTED BENEFIT

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

SUPPLEMENTARY INFORMATION (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”. “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.

SUPPLEMENTARY INFORMATION (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.

SUPPLEMENTARY INFORMATION (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 (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.

SUPPLEMENTARY INFORMATION (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-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (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.

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor 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:	Edward Dunn		
Appointed Member:	Cheryl Watson Fisher	Term Expires:	05/21/2021
Elected Member:	Joseph Siewko, Chairman	Term Expires:	12/17/2020
Elected Member:	Richard Carroccino	Term Expires:	10/11/2022
Appointed Member:	Carolyn Russo	Term Expires:	01/28/2021

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

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

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

BOARD REGULATIONS

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

SUPPLEMENTARY INFORMATION (Continued)

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, 2019.

The actuarial liability for active members was	$121,742,731
The actuarial liability for vested terminated members was	4,151,569
The actuarial liability for non-vested terminated members was	1,467,351
The actuarial liability for retired members was	117,839,252
The total actuarial liability was	$245,200,903
System assets as of that date were (actuarial value)	170,654,707
The unfunded actuarial liability was	$74,546,196
The ratio of system's assets to total actuarial liability was	69.6%
As of that date the total covered employee payroll was	$39,748,446

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer including administrative expenses was	9.2% of payroll

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

Investment Return:	7.25% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2019

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)
1/1/2019	$170,654,707	$245,200,903	$74,546,196	69.6%	$39,748,446	187.5%
1/1/2017	$141,936,000	$220,818,662	$78,882,662	64.3%	$35,887,899	219.8%
1/1/2015	$117,810,353	$199,863,344	$82,052,991	58.9%	$33,006,583	248.6%
1/1/2013	$92,679,560	$174,719,158	$82,039,598	53.0%	$31,121,488	263.6%
1/1/2011	$84,087,066	$157,628,890	$73,541,824	53.3%	$29,750,417	247.2%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	2	0	15	7	14	15	13	9	11	18
Ordinary Disability	0	0	0	0	0	1	0	0	1	0
Accidental Disability	1	0	2	2	3	2	1	0	3	2
Total Retirements	3	0	17	9	17	18	14	9	15	20
Total Retirees, Beneficiaries and Survivors	395	394	418	405	427	409	380	370	371	372
Total Active Members	664	695	667	658	657	675	664	664	671	689
Pension Payments										
Superannuation	$3,619,932	$3,828,102	$3,988,070	$3,973,623	$4,376,447	$4,335,343	$4,375,575	$4,554,748	$4,672,185	$4,974,815
Survivor/Beneficiary Payments	441,010	477,061	473,567	455,418	466,281	478,598	542,682	553,141	497,926	490,891
Ordinary Disability	138,656	135,669	128,926	124,961	26,920	126,204	132,381	116,097	105,002	108,416
Accidental Disability	1,580,236	1,667,916	1,912,391	1,842,837	1,883,929	1,986,155	1,972,361	1,981,589	2,012,727	2,157,295
Other	1,367,754	1,369,299	1,385,858	1,344,009	1,565,272	1,456,972	1,460,444	1,621,670	1,602,831	1,664,179
Total Payments for Year	$7,147,588	$7,478,047	$7,888,812	$7,740,848	$8,318,849	$8,383,272	$8,483,444	$8,827,243	$8,890,671	$9,395,596

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone: 617-666-4446 | Fax: 617-628-4002
TTY: 617-591-8917 | Web: www.mass.gov/perac

November 3, 2021

Joseph M. Siewko, Chairperson
Chelsea Retirement Board
City Hall, Room 214
Chelsea, MA 02150

REFERENCE: Report of the Examination of the Chelsea Retirement Board for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairperson Siewko:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Chelsea 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 cited a finding that there were errors related to either member contributions or the determination of regular compensation in several departments.

Follow-up Result: We used recent payrolls for testing and found that most issues have been corrected. There is only one department expected to be corrected in October 2021. This finding is resolved.

2. The Audit Report cited a finding that service purchases were calculated using incorrect interest rates, interest charged did not correspond to when payments were made and the Board did not have a regulation for the purchase of part-time service.

Follow-up Result: Only one of five service purchases found with errors has been corrected. A supplemental regulation regarding the calculation of part-time service was approved on January 15, 2021. This finding is partially resolved.

3. The Audit Report cited a finding that there were errors found in the calculation of several retirement allowances.

Follow-up Result: Corrections have not been made. This finding is not resolved.

4. The Audit Report cited a finding that eight refunds were calculated incorrectly.

Follow-up Result: Corrections have not been made. This finding is not resolved.

5. The Audit Report cited a finding that a complete monthly financial packet was not presented to the Board and there was no comparison of actual spending to budgeted amounts.

Follow-up Result: We reviewed the Board meeting minutes from June 2020 through June 2021 and found that the Board was presented with monthly financial reports. We noted there was a review of the annual 2020 budget to actual spending, however, this should be done at least quarterly. This finding is significantly resolved.

The additional matters discussed have been reviewed and are not resolved at this time.

PERAC auditors will conduct an additional follow-up visit in 90 days to ensure corrections have been made in those areas that have not been resolved at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director

JWP/tal
cc: Chelsea Retirement Board Members