

PERAC AUDIT REPORT



Chicopee



Contributory Retirement System

JAN. 1, 2014 - DEC. 31, 2017



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, *Executive Director*

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

July 3, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Chicopee Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2014 to December 31, 2017. 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 examiners Scott Henderson and Richard Wrona who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



John W. Parsons, Esq.
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation

Many school department paraprofessionals are paid for various other types of additional work which do not currently have retirement deductions withheld. We examined a payroll for the two week period ending June 8, 2018 and identified that the additional work includes time spent as crossing guards (\$1,127), cafeteria duties (\$1,323), serving as a bus monitor (\$18,885), and before/after school programs (\$2,217). When these payments meet the definition of regular compensation found in 840 CMR 15.03 3(a) and (b) then retirement deductions should come out.

Deductions are not withheld on payments a paraprofessional receives for filling in for a teacher which totaled \$49,001 for the payroll examined. This type of payment is considered regular compensation.

Additionally, our test of new retirees identified a paraprofessional that was paid an average of \$1,290 per summer, but those amounts were not included when computing the high three-year average regular compensation. Summer school pay meets the definition of regular compensation.

Recommendation: Board staff should work with the school payroll department to determine which of the extra payments are “pre-determined [and] guaranteed” so that withholding contributions can begin where appropriate. Payments for classroom coverage and summer school should have contributions withheld immediately.

Board Response:

The Board Staff, Auditing, Treasurer’s Office and the School Payroll Department are meeting during the month of July to make sure that all codes for bus monitors, crossing guards, noon mothers, before/after school programs are coded correctly as of August 22, 2019 (the beginning of the new school year) for all individuals that are working 20.25 hours or more each week in total.

2. Accounts Receivable

The Chicopee Retirement Board correctly reported a cost of living reimbursement from the State Retirement Board of \$115,395.61 as an accounts receivable on the December 31, 2017 Annual Statement. However, when the reimbursement came in, the City Treasurer applied the funds to a non-Retirement System bank account. Retirement Board staff did not follow through on the receipt of the money until we brought it to their attention. Once identified by the audit team, the Administrator promptly followed up with the Treasurer and had the funds transferred to the Retirement System.

Recommendation: In the future, the Chicopee Retirement Board should monitor accounts receivable and institute prompt follow up action.

Board Response:

The Retirement Staff has been working with the Treasurer’s Office to insure that this does not happen again. The Treasurer’s Office is aware of the amount that the Retirement Staff is waiting for and they are working together monthly to insure that monies are put into the proper accounts.

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,			
	2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	\$11,179,963	\$9,989,979	\$148,749	\$287,566
Pooled Domestic Equity Funds	113,214,608	95,597,880	94,119,893	92,400,399
Pooled International Equity Funds	59,266,981	44,816,612	40,907,880	43,700,007
Pooled Domestic Fixed Income Funds	47,328,933	44,806,947	39,421,147	39,287,418
Pooled International Fixed Income Funds	8,849,484	7,858,024	13,767,920	14,819,114
Pooled Alternative Investment Funds	34,897,234	30,814,033	15,998,592	15,564,225
Pooled Real Estate Funds	36,413,515	33,560,604	30,909,435	27,449,286
Hedge Funds	12,261,057	11,937,842	17,165,985	17,489,740
Accounts Receivable	308,369	149,048	285,263	150,261
Accounts Payable	(37,312)	(53,383)	(45,613)	(45,904)
Total	<u>\$323,682,832</u>	<u>\$279,477,586</u>	<u>\$252,679,251</u>	<u>\$251,102,111</u>
Fund Balances:				
Annuity Savings Fund	\$60,471,407	\$59,993,062	\$57,809,998	\$57,112,712
Annuity Reserve Fund	15,372,343	13,942,496	14,044,079	12,467,419
Pension Fund	9,866,830	9,288,958	8,074,311	6,626,624
Military Service Fund	68,146	69,184	69,115	88,689
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>237,904,107</u>	<u>196,183,885</u>	<u>172,681,749</u>	<u>174,806,666</u>
Total	<u>\$323,682,832</u>	<u>\$279,477,586</u>	<u>\$252,679,251</u>	<u>\$251,102,111</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2014	\$55,639,877	\$11,343,862	\$4,966,465	\$95,665	\$0	\$160,518,665	\$232,564,535
Receipts	5,347,138	357,906	17,151,726	8,885	1,389,059	14,284,712	38,539,426
Interfund Transfers	(3,176,730)	3,189,303	0	(15,862)	0	3,289	0
Disbursements	(697,573)	(2,423,651)	(15,491,567)	0	(1,389,059)	0	(20,001,851)
Ending Balance 2014	57,112,712	12,467,419	6,626,624	88,689	0	174,806,666	251,102,111
Receipts	5,337,643	392,065	17,631,949	14,757	2,364,210	(2,128,742)	23,611,882
Interfund Transfers	(3,853,968)	3,879,482	4,993	(34,331)	0	3,825	(0)
Disbursements	(786,389)	(2,694,888)	(16,189,254)	0	(2,364,210)	0	(22,034,741)
Ending Balance 2015	57,809,998	14,044,079	8,074,311	69,115	0	172,681,749	252,679,251
Receipts	5,597,014	425,087	18,013,703	69	2,375,039	23,500,894	49,911,806
Interfund Transfers	(2,529,290)	2,528,047	0	0	0	1,243	(0)
Disbursements	(884,660)	(3,054,717)	(16,799,056)	0	(2,375,039)	0	(23,113,472)
Ending Balance 2016	59,993,062	13,942,496	9,288,958	69,184	0	196,183,885	279,477,586
Receipts	5,661,548	431,001	18,425,769	69	2,323,280	41,720,221	68,561,887
Interfund Transfers	(4,102,052)	4,103,159	0	(1,107)	0	1	0
Disbursements	(1,081,150)	(3,104,313)	(17,847,898)	0	(2,323,280)	0	(24,356,640)
Ending Balance 2017	\$60,471,407	\$15,372,343	\$9,866,830	\$68,146	\$0	\$237,904,107	\$323,682,832

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	\$5,291,105	\$5,199,199	\$4,983,166	\$4,744,916
Transfers from Other Systems	201,631	236,853	232,719	454,138
Member Make Up Payments and Re-deposits	53,477	28,526	17,199	63,100
Member Payments from Rollovers	42,182	67,343	34,023	26,770
Investment Income Credited to Member Accounts	<u>73,153</u>	<u>65,093</u>	<u>70,536</u>	<u>58,214</u>
Sub Total	<u>5,661,548</u>	<u>5,597,014</u>	<u>5,337,643</u>	<u>5,347,138</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>431,001</u>	<u>425,087</u>	<u>392,065</u>	<u>357,906</u>
Sub Total	<u>431,001</u>	<u>425,087</u>	<u>392,065</u>	<u>357,906</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	173,834	173,286	144,392	143,200
Pension Fund Appropriation	237,197	267,842	420,938	301,665
Settlement of Workers' Compensation Claims	17,998,375	17,552,294	17,042,396	16,679,073
Recovery of 91A Overearnings	7,500	12,000	15,000	23,374
	<u>8,863</u>	<u>8,281</u>	<u>9,224</u>	<u>4,414</u>
Sub Total	<u>18,425,769</u>	<u>18,013,703</u>	<u>17,631,949</u>	<u>17,151,726</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	14,668	8,777
Investment Income Credited to the Military Service Fund	<u>69</u>	<u>69</u>	<u>89</u>	<u>109</u>
Sub Total	<u>69</u>	<u>69</u>	<u>14,757</u>	<u>8,885</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>2,323,280</u>	<u>2,375,039</u>	<u>2,364,210</u>	<u>1,389,059</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	112,703	93,619	81,149	83,557
Interest Not Refunded	766	254	270	3,361
Miscellaneous Income (A)	171,147	1,706	1,299	173
Excess Investment Income	<u>41,435,605</u>	<u>23,405,315</u>	<u>(2,211,460)</u>	<u>14,197,621</u>
Sub Total	<u>41,720,221</u>	<u>23,500,894</u>	<u>(2,128,742)</u>	<u>14,284,712</u>
Total Receipts, Net	\$68,561,887	\$49,911,806	\$23,611,882	\$38,539,426

(A): Miscellaneous income for 2017 includes class action settlement money.

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	\$475,492	\$223,551	\$517,424	\$513,047
Transfers to Other Systems	<u>605,658</u>	<u>661,109</u>	<u>268,965</u>	<u>\$184,526</u>
Sub Total	<u>1,081,150</u>	<u>884,660</u>	<u>786,389</u>	<u>697,573</u>
Annuity Reserve Fund:				
Annuities Paid	3,016,013	2,799,683	2,599,235	2,375,495
Option B Refunds	<u>88,300</u>	<u>255,034</u>	<u>95,652</u>	<u>48,156</u>
Sub Total	<u>3,104,313</u>	<u>3,054,717</u>	<u>2,694,888</u>	<u>2,423,651</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	12,042,405	11,673,096	11,061,150	10,531,164
Survivorship Payments	974,519	925,688	902,942	911,387
Ordinary Disability Payments	179,838	140,950	105,591	88,748
Accidental Disability Payments	3,082,343	3,069,280	2,955,976	2,759,282
Accidental Death Payments	689,047	610,500	588,423	628,929
Section 101 Benefits	128,469	141,025	139,073	137,367
3 (8) (c) Reimbursements to Other Systems	751,276	238,517	436,099	434,691
Sub Total	<u>17,847,898</u>	<u>16,799,056</u>	<u>16,189,254</u>	<u>15,491,567</u>
Expense Fund:				
Board Member Stipend	22,750	21,963	21,163	22,500
Salaries	228,531	275,010	218,921	209,012
Legal Expenses	23,204	8,026	17,169	13,480
Medical Expenses	0	50	0	0
Travel Expenses	1,899	2,994	3,789	4,469
Administrative Expenses	18,109	10,896	17,164	10,249
Actuarial Services	9,625	5,000	9,575	10,575
Accounting Services	5,750	5,000	5,300	0
Education and Training	3,418	4,288	3,664	3,480
Furniture and Equipment	2,310	125	0	5,624
Management Fees	1,240,067	1,164,748	2,027,704	1,071,623
Custodial Fees	(12)	348	595	510
Consultant Fees	750,328	835,846	0	0
Service Contracts	2,516	26,170	25,020	23,774
Fiduciary Insurance	<u>14,784</u>	<u>14,577</u>	<u>14,145</u>	<u>13,764</u>
Sub Total	<u>2,323,280</u>	<u>2,375,039</u>	<u>2,364,210</u>	<u>1,389,059</u>
Total Disbursements	\$24,356,640	\$23,113,472	\$22,034,741	\$20,001,851

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Investment Income Received From:				
Cash	\$0	\$310	\$165	\$19
Pooled or Mutual Funds	<u>7,337,697</u>	<u>5,120,786</u>	<u>5,652,739</u>	<u>5,189,212</u>
Total Investment Income	<u>7,337,697</u>	<u>5,121,096</u>	<u>5,652,904</u>	<u>5,189,231</u>
Plus:				
Realized Gains	13,533,931	5,845,869	12,719,071	23,084,249
Unrealized Gains	<u>38,381,399</u>	<u>40,017,661</u>	<u>28,959,188</u>	<u>27,348,477</u>
Sub Total	<u>51,915,330</u>	<u>45,863,531</u>	<u>41,678,259</u>	<u>50,432,727</u>
Less:				
Realized Loss	(478,309)	(1,788,046)	(205,125)	(28,994)
Unrealized Loss	<u>(14,511,610)</u>	<u>(22,925,977)</u>	<u>(46,510,598)</u>	<u>(39,590,054)</u>
Sub Total	<u>(14,989,919)</u>	<u>(24,714,023)</u>	<u>(46,715,723)</u>	<u>(39,619,049)</u>
Net Investment Income	<u>44,263,108</u>	<u>26,270,604</u>	<u>615,440</u>	<u>16,002,909</u>
Income Required:				
Annuity Savings Fund	73,153	65,093	70,536	58,214
Annuity Reserve Fund	431,001	425,087	392,065	357,906
Military Service Fund	69	69	89	109
Expense Fund	<u>2,323,280</u>	<u>2,375,039</u>	<u>2,364,210</u>	<u>1,389,059</u>
Total Income Required	<u>2,827,503</u>	<u>2,865,288</u>	<u>2,826,900</u>	<u>1,805,288</u>
Net Investment Income	<u>44,263,108</u>	<u>26,270,604</u>	<u>615,440</u>	<u>16,002,909</u>
Less: Total Income Required	<u>2,827,503</u>	<u>2,865,288</u>	<u>2,826,900</u>	<u>1,805,288</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$41,435,605</u>	<u>\$23,405,315</u>	<u>(\$2,211,460)</u>	<u>\$14,197,621</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2017		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$11,179,963	3.5%
Pooled Domestic Equity Funds	113,214,608	35.0%
Pooled International Equity Funds	59,266,981	18.3%
Pooled Domestic Fixed Income Funds	47,328,933	14.6%
Pooled International Fixed Income Fund	8,849,484	2.7%
Pooled Alternative Investment Funds	34,897,234	10.8%
Pooled Real Estate Funds	36,413,515	11.3%
Hedge Funds	<u>12,261,057</u>	<u>3.8%</u>
Grand Total	<u>\$323,411,775</u>	<u>100.0%</u>

For the year ending December 31, 2017, the rate of return for the investments of the Chicopee Retirement System was 16.16%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Chicopee Retirement System averaged 10.11%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chicopee Retirement System was 8.85%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

The Chicopee Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 9, 2010

21.01(1)-(10)

The Chicopee Retirement System is authorized to invest in the SEI Special Situations Fund, a fund of funds structured to capitalize on perceived market dislocations across a wide range of capital markets. Some of the underlying funds may purchase securities on margin or engage in short-selling. Managers of underlying funds may use futures contracts for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds may buy or sell options for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds reserve the right to purchase restricted stock and to deal in collateral loans. Sections 21.01(7) and 21.01(10) do not apply to underlying fund managers' ability to directly invest in either mortgages or real estate. 21.01(9) does not apply to the lending activities of underlying fund managers.

December 17, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Global Private Equity Fund II (2007), L.P.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of PERAC to the contrary, including but not limited to the provisions of 840 CMR 21.01 (2) (3) (4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained herein for the purposes of investing in the SEI Structured Credit Fund, LP.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Offshore Opportunities Fund, II Ltd.

July 29, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the following SEI mutual funds, provided that the underlying investments conform to the terms of the fund prospectuses on file with the United States Securities and Exchange Commission:

SEI Institutional Investments Trust Disciplined Equity Fund

SEI Institutional Investments Trust World Equity Ex-US Fund

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

SEI Institutional Investments Trust Small/Mid Cap Equity Fund

SEI Institutional Investments Trust Core Fixed Income Fund

SEI Institutional Investments Trust High Yield Bond Fund

SEI Institutional Investments Trust Emerging Market Bond Fund

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

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 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.

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 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.

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". "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.

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 \$897.72 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 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 \$897.72 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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 develops an investment strategy in consultation with the investment manager 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 Chicopee Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

April 22, 1999

I.D.: - Seasonal employees who work more than 20 hours per week for five months or more on a regular basis shall become members of the Chicopee Contributory Retirement System upon reaching eligibility.

December 4, 1998

Requirements for membership:

A permanent full time employee of any member unit of the Chicopee Contributory Retirement System shall become a member of the Chicopee Contributory Retirement System on the first day of employment.

A part time permanent employee who normally works more than twenty hours per week shall become a member of the Chicopee Contributory Retirement System on the first day of employment.

Membership:

Rules and Regulations:

Temporary employees shall be ineligible for membership, however, upon becoming permanent, the employee shall have the option of purchasing prior service.

Elected officials shall continue to have the option of joining the Chicopee Contributory Retirement System in accordance with General Laws, Chapter 32, section 3(2)(a)(iv).

Creditable Service:

July, 25, 2005

Full time employees who become part-time shall have their service prorated as it relates to a full time position. If these employees work over twenty hours per week after switching from full-time to part-time, then these employees shall receive one year of creditable service provided they work all the hours required by their position.

December 4, 1998

Full time employees will receive one (1) year of creditable service provided they work the hours required by their position. Part time employees whose positions have always been part time shall be granted full creditable service. Part time employees who become full time shall have their part time service prorated as it relates to a full time position.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Buyback:

A. For any employee who is not a member of the Chicopee Contributory Retirement System on the first date of employment that employee, upon becoming a member, shall be allowed to buy back their service as a non-member regardless if the employee made contributions to deferred compensation.

Miscellaneous:

August 23, 2016

Payment of Interest - Correction of Errors

The provisions of M.G.L. c. 32, § 20(5)(c)(2) states that when an error exists in the records maintained by the system or an error is made in computing a benefit and, as a result, a member or beneficiary receives from the system more or less than the member or beneficiary would have been entitled to receive had the records been correct or had the error not been made, the records or error shall be corrected and as far as practicable, and future payments shall be adjusted so that the actuarial equivalent of the pension or benefit to which the member or beneficiary was correctly entitled shall be paid. If it is determined that a member has contributed an incorrect amount to the retirement system, the member shall be required to contribute an amount sufficient to correct such error or the board shall pay an amount to the member to correct such error, as the case may be.

The Board's policy with respect to the correction of such errors, and the calculation of what constitutes the actuarial equivalent, consistent with the decision rendered in *Herrick v. Essex Regional Retirement Board*, 465 Mass. 801 (2013) and PERAC Memorandum #32/2013, shall require the Board to pay to the member or beneficiary, or in the case in which a member or beneficiary has been overpaid by the Board, the amount of the corrected benefit, together with three percent (3%) annual interest on the benefit paid or owed, as the case may be, computed from the date the error occurred to the date the error was corrected. In a circumstance in which the Board owes funds to the member or beneficiary, the Board will make a one-time lump-sum payment of the amount owed, and prospectively from the date of payment correct the error such that the member or beneficiary receives the corrected monthly benefit. In a circumstance in which the Board is owed funds by a member or beneficiary to correct an error, the Board shall in its sole discretion withhold an amount it deems appropriate from the member's or beneficiary's monthly benefit until such time as the debt is fully recovered. In a circumstance in which the Board is owed funds by a member or beneficiary to correct an error, and the member or beneficiary is no longer entitled to receive a monthly benefit, the Board will seek to recover any amount owed in the most prudent and practical manner possible, and reserves the right to maintain an action in contract to recover any amount due from the member, beneficiary or the member's or beneficiary's estate.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Travel Regulations:

March 11, 2003

The Chicopee 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 <https://www.mass.gov/service-details/chicopee-retirement-board-travel-regulations>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2017.

The actuarial liability for active members was	\$181,037,672
The actuarial liability for inactive members was	1,908,020
The actuarial liability for retired members was	<u>195,434,154</u>
The total actuarial liability was	\$378,379,846
System assets as of that date were (actuarial value)	<u>287,146,422</u>
The unfunded actuarial liability was	<u>\$91,233,424</u>
The ratio of system's assets to total actuarial liability was	75.9%
As of that date the total covered employee payroll was	\$55,058,452

The normal cost for employees on that date was	9.2% of payroll
The normal cost for the employer was (excluding administrative expenses)	5.8% 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 group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2017 (Amounts in 000's)

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)
1/1/2017	\$287,146	\$378,380	\$91,234	75.9%	\$55,058	165.7%
1/1/2015	\$241,977	\$332,189	\$90,212	72.8%	\$51,034	176.8%
1/1/2014	\$215,331	\$319,631	\$104,300	67.4%	\$51,159	203.9%
1/1/2013	\$186,290	\$295,349	\$109,059	63.1%	\$49,850	218.8%
1/1/2012	\$174,648	\$289,436	\$114,788	60.3%	\$48,648	236.0%
1/1/2011	\$167,050	\$278,174	\$111,124	60.1%	\$50,243	221.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retirement in Past Years										
Superannuation	24	26	26	35	23	27	32	37	28	46
Ordinary Disability	0	0	0	0	0	2	1	1	2	1
Accidental Disability	6	1	2	4	4	5	5	6	2	4
Total Retirements	30	27	28	39	27	34	38	44	32	51
 Total Retirees, Beneficiaries and Survivors	824	810	795	797	781	780	790	797	792	807
 Total Active Members	1,227	1,226	1,216	1,219	1,267	1,264	1,266	1,273	1,299	1,287
 Pension Payments										
Superannuation	\$9,183,214	\$9,536,409	\$9,879,155	\$10,030,317	\$10,162,335	\$10,267,726	\$10,531,164	\$11,061,150	\$11,673,096	\$12,042,405
Survivor/Beneficiary Payments	773,317	797,576	833,277	873,138	837,506	837,051	911,387	902,942	925,688	974,519
Ordinary Disability	165,104	135,893	102,541	92,809	94,648	96,416	88,748	105,591	140,950	179,838
Accidental Disability	2,324,625	2,404,366	2,458,154	2,536,709	2,586,174	2,705,884	2,759,282	2,955,976	3,069,280	3,082,343
Other	<u>1,195,947</u>	<u>1,157,407</u>	<u>1,246,541</u>	<u>1,067,847</u>	<u>1,088,092</u>	<u>1,279,273</u>	<u>1,200,987</u>	<u>1,163,595</u>	<u>990,042</u>	<u>1,568,792</u>
Total Payments for Year	<u>\$13,642,207</u>	<u>\$14,031,651</u>	<u>\$14,519,668</u>	<u>\$14,600,820</u>	<u>\$14,768,755</u>	<u>\$15,186,350</u>	<u>\$15,491,567</u>	<u>\$16,189,254</u>	<u>\$16,799,056</u>	<u>\$17,847,898</u>

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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 | RICHARD MacKINNON, Jr. | JENNIFER F. SULLIVAN

October 6, 2021

Timothy O'Shea, Chairperson
Chicopee Retirement Board
274 Front Street
Chicopee, MA 01013

REFERENCE: Report of the Examination of the Chicopee Retirement Board for the four-year period from January 1, 2014 through December 31, 2017.

Dear Chairperson O'Shea:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Chicopee 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 pertaining to the regular compensation status of payments received by school paraprofessionals for additional work.

Follow-up Result: We found that paraprofessionals are having the proper retirement deductions taken for additional work. With respect to a retired paraprofessional that did not have summer work included when computing the high three-year average compensation, this situation was reviewed by board staff and appropriate action was taken. This issue is resolved.

2. The Audit Report cited a finding that when cash was received for one of the December 31, 2017 accounts receivable, the City Treasurer incorrectly applied the funds to a non-Retirement System bank account and Board staff did not follow through on the receipt of the money.

Follow-up Result: Board staff are now more closely monitoring the status of accounts receivable and taking appropriate follow up action. This issue is resolved.



October 6, 2021

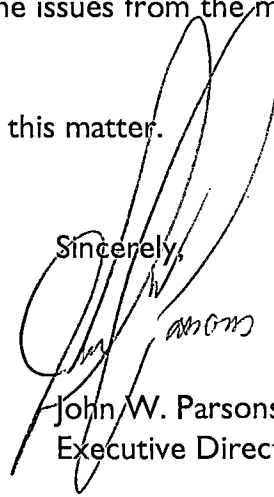
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The additional matters discussed have been reviewed and have been resolved.

The Commission wishes to acknowledge the significant effort demonstrated by the staff of the Chicopee Retirement Board 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", written over the word "Sincerely,".

John W. Parsons, Esq.
Executive Director

JWP/rwp

cc: Chicopee Retirement Board Members