Fitchburg

Retirement System

Audit Report

JAN. 1, 2014 - DEC. 31, 2017

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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April 8, 2020

The Public Employee Retirement Administration Commission has completed an examination of the Fitchburg 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 noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Karen Casper, Carol Poladian and Scott Henderson 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 FINDING AND RECOMMENDATION

1. Regular Compensation:

Beginning in February 2016, school custodians who were being paid a shift differential for their regular shift, and then worked additional overtime hours and received additional shift differential pay, have had retirement contributions withheld from the shift differential pay related to the overtime hours. Although shift differential is regular compensation pursuant to 840 CMR 15.03 3(b), once it is part of overtime pay it is, pursuant to 840 CMR 15.03 3(f), no longer regular compensation.

Additionally, the school department puts many types of pay into a "stipend" code that has retirement deductions withheld. Some of these payments are regular compensation and some are not. Payments that are a flat pre-determined amount are generally regular compensation. It is when we start seeing payments based on a number of additional hours worked that some of them are no longer regular compensation. If the hours are set in advance then the payments are considered regular compensation, but if the hours are sporadic and/or performed on an "as needed" basis, then the payments are not considered regular compensation.

Recommendation: The school payroll department should be instructed to end contributions from the shift differential pay for overtime hours.

Board staff must work with the school payroll staff to determine which stipends are regular compensation and which ones are not.

Board Response:

The staff of the retirement system reached out to the School payroll to advise them that the overtime shift differential was being paid on overtime wages and retirement deductions were incorrectly being taken. This has been corrected as of September 2019. The members involved have all been refunded.

The staff is having ongoing conversations with the school department pertaining to stipends and regular work schedules.

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	$993,915	$1,592,920	$3,259,067	$1,682,241
Pooled Real Estate Funds	0	22,124	662,376	1,819,009
PRIT Core Fund	119,575,031	103,038,755	94,859,956	96,679,330
Accounts Receivable	166,928	86,123	179,310	109,351
Accounts Payable	(4,078)	(5,663)	(3,746)	(6,726)
Total	$120,731,796	$104,734,260	$98,956,963	$100,283,205
Fund Balances:				
Annuity Savings Fund	$32,239,716	$31,846,138	$30,345,656	$30,377,172
Annuity Reserve Fund	13,695,103	13,110,966	13,277,296	12,334,556
Pension Fund	0	872,172	1,324,419	1,520,509
Military Service Fund	7,578	7,571	7,563	7,556
Expense Fund	0	0	0	0
Pension Reserve Fund	74,789,398	58,897,414	54,002,029	56,043,411
Total	$120,731,796	$104,734,260	$98,956,963	$100,283,205

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	$28,763,056	$12,889,304	$1,167,847	$7,548	$0	$52,171,888	$94,999,643
Receipts	3,232,200	378,250	9,792,798	8	708,776	6,474,563	20,586,594
Interfund Transfers	(1,177,411)	1,177,378	2,603,073	0	0	(2,603,040)	0
Disbursements	(440,672)	(2,110,376)	(12,043,209)	0	(708,776)	0	(15,303,033)
Ending Balance 2014	30,377,172	12,334,556	1,520,509	7,556	0	56,043,411	100,283,205
Receipts	3,152,013	389,961	10,369,855	8	677,564	(68,020)	14,521,380
Interfund Transfers	(2,776,765)	2,775,254	1,974,873	0	0	(1,973,362)	0
Disbursements	(406,763)	(2,222,476)	(12,540,819)	0	(677,564)	0	(15,847,622)
Ending Balance 2015	30,345,656	13,277,296	1,324,419	7,563	0	54,002,029	98,956,963
Receipts	3,591,176	401,162	11,000,031	8	715,888	6,402,532	22,110,796
Interfund Transfers	(1,816,106)	1,815,498	1,507,755	0	0	(1,507,147)	0
Disbursements	(274,588)	(2,382,990)	(12,960,033)	0	(715,888)	0	(16,333,498)
Ending Balance 2016	31,846,138	13,110,966	872,172	7,571	0	58,897,414	104,734,260
Receipts	3,701,706	407,253	11,890,916	8	813,850	16,791,311	33,605,043
Interfund Transfers	(2,788,237)	2,734,410	953,153	0	0	(899,327)	(0)
Disbursements	(519,890)	(2,557,527)	(13,716,241)	0	(813,850)	0	(17,607,508)
Ending Balance 2017	$32,239,716	$13,695,103	$0	$7,578	$0	$74,789,398	$120,731,796

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	$3,145,188	$2,956,654	$2,920,174	$2,696,375
Transfers from Other Systems	421,020	583,551	168,511	462,290
Member Make Up Payments and Re-deposits	9,349	13,064	24,561	42,540
Member Payments from Rollovers	74,857	4,044	4,044	0
Investment Income Credited to Member Accounts	51,291	33,863	34,722	30,994
Sub Total	3,701,706	3,591,176	3,152,013	3,232,200
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	407,253	401,162	389,961	378,250
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	224,992	248,108	184,376	101,820
Received from Commonwealth for COLA and Survivor Benefits	158,736	171,333	207,187	208,025
Pension Fund Appropriation	11,497,188	10,576,990	9,978,292	9,481,269
Settlement of Workers' Compensation Claims	10,000	3,600	0	0
Recovery of 91A Overearnings	0	0	0	1,685
Sub Total	11,890,916	11,000,031	10,369,855	9,792,798
Military Service Fund:				
Investment Income Credited to the Military Service Fund	8	8	8	8
Expense Fund:				
Investment Income Credited to the Expense Fund	813,850	715,888	677,564	708,776
Pension Reserve Fund:				
Federal Grant Reimbursement	25,266	27,457	24,252	22,201
Interest Not Refunded	13,940	2,339	1,078	658
Miscellaneous Income	2	0	0	0
Excess Investment Income	16,752,103	6,372,736	(93,350)	6,451,705
Sub Total	16,791,311	6,402,532	(68,020)	6,474,563
Total Receipts, Net	$33,605,043	$22,110,796	$14,521,380	$20,586,594

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	$208,593	$101,876	$116,532	$134,019
Transfers to Other Systems	311,297	172,712	290,232	306,654
Sub Total	519,890	274,588	406,763	440,672
Annuity Reserve Fund:				
Annuities Paid	2,557,527	2,367,909	2,222,476	2,057,304
Option B Refunds	0	15,081	0	53,071
Sub Total	2,557,527	2,382,990	2,222,476	2,110,376
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	8,319,892	7,880,129	8,077,287	7,622,236
Survivorship Payments	601,492	569,010	368,053	352,996
Ordinary Disability Payments	92,118	139,725	70,788	82,271
Accidental Disability Payments	1,816,910	1,657,186	1,426,106	1,403,429
Accidental Death Payments	436,820	460,387	381,659	399,868
Section 101 Benefits	160,565	161,991	104,683	110,000
3 (8) (c) Reimbursements to Other Systems	345,427	253,587	331,975	378,748
State Reimbursable COLA's Paid	1,943,016	1,838,018	1,780,267	1,693,661
Sub Total	13,716,241	12,960,033	12,540,819	12,043,209
Expense Fund:				
Board Member Stipend	15,000	15,000	15,000	15,000
Salaries	121,621	86,721	84,265	81,449
Legal Expenses	4,078	4,163	2,531	6,694
Travel Expenses	3,077	1,387	1,345	1,536
Administrative Expenses	25,800	6,856	6,809	7,296
Actuarial Services	5,650	15,125	6,250	10,250
Accounting Services	0	6,000	5,500	6,000
Education and Training	1,750	900	810	810
Furniture and Equipment	0	1,146	0	7,731
Management Fees	580,926	529,948	508,746	528,101
Rent Expenses	15,000	13,000	12,150	12,000
Service Contracts	31,355	26,185	24,978	22,975
Fiduciary Insurance	9,592	9,457	9,180	8,933
Sub Total	813,850	715,888	677,564	708,776
Total Disbursements	$17,607,508	$16,333,498	$15,847,622	$15,303,033

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2017	2016	2015	2014
Investment Income Received From:				
Cash	$3,066	$4,386	$407	$744
Pooled or Mutual Funds	3,066,026	2,828,592	2,603,253	2,807,987
Total Investment Income	3,069,092	2,832,977	2,603,660	2,808,730
Plus:				
Realized Gains	5,009,817	2,794,944	3,485,395	4,242,135
Unrealized Gains	9,945,596	8,995,480	5,306,514	6,475,076
Sub Total	14,955,413	11,790,425	8,791,909	10,717,210
Less:				
Realized Loss	0	(655,898)	(459,430)	(273,948)
Unrealized Loss	0	(6,443,848)	(9,927,234)	(5,682,260)
Sub Total	0	(7,099,746)	(10,386,664)	(5,956,208)
Net Investment Income	18,024,505	7,523,657	1,008,904	7,569,732
Income Required:				
Annuity Savings Fund	51,291	33,863	34,722	30,994
Annuity Reserve Fund	407,253	401,162	389,961	378,250
Military Service Fund	8	8	8	8
Expense Fund	813,850	715,888	677,564	708,776
Total Income Required	1,272,402	1,150,920	1,102,254	1,118,028
Net Investment Income	18,024,505	7,523,657	1,008,904	7,569,732
Less: Total Income Required	1,272,402	1,150,920	1,102,254	1,118,028
Excess Income (Loss) To The Pension Reserve Fund	$16,752,103	$6,372,736	($93,350)	$6,451,705

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2017	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$993,915	0.8%
PRIT Core Fund	119,575,031	99.2%
Grand Total	$120,568,945	100.0%

For the year ending December 31, 2017, the rate of return for the investments of the Fitchburg Retirement System was 17.54%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Fitchburg Retirement System averaged 9.7%. 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 Fitchburg Retirement System was 7.84%.

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 Fitchburg Retirement System voted on August 28, 2007 to invest all of the system's assets (with the exception of the funds invested with TA Realty Associates which was liquidated in 2017) with the PRIT fund as of October 1, 2007. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

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 (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.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Fitchburg Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:
August 26, 2014
Employees, appointed and elected officials of all member units of the Fitchburg Retirement System who earn less than $5,000 per year are ineligible for initial membership.

January 10, 1996
All employees of the City of Fitchburg who work a minimum of 20 hours per week for at least 35 weeks per year shall be members of the system and contribute according to existing statutes.

Creditable Service:
December 8, 1995
Buy-Backs
Anyone becoming aware for the first time of his or her eligibility under the 20-hour rule may buy back prior creditable service. Paybacks may be made in a lump-sum payment or through weekly deductions not to be less than $3.00 per week.

December 8, 1995**:**
Procedure for New Employees:
All departments shall notify the Retirement Office of any new employees, giving the name, job title and description, rate of pay, number of hours, and source of funding. No new employees will be put on the payroll if the above procedure has not been met.

Annual Questionnaires:
Pensioners and member survivors are required to fill out and sign the annual Questionnaires which must be returned to the Retirement Board within two months of the month they are mailed out.

Regular Compensation:
October 1, 2010
The Professional Standard Stipend is deemed to be "regular compensation" as defined in section 1 of Chapter 32 and subject to retirement deductions. The Professional Standard Stipend shall be paid to all officers on the Fitchburg Police Department who have obtained firearm certification, attended in-service training, and obtained certification for CPR, first responder and defibrillator. The Professional Standard Stipend shall be paid once a year in a separate check. It shall be 9% calculated on the basis of the top pay for a Patrolman and shall become part of the officer's base compensation.

The On-call Detective Pay is deemed to be "regular compensation" as defined in section 1 of Chapter 32 and subject to retirement deductions. The On-call Detective Pay consists of a weekly

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

$250 stipend, paid to whichever Detective is on call, which shall become part of the officer's base pay.

Miscellaneous:
April 30, 2014
Correction of Errors under G.L. c. 32, 20(5)(c)(2)
In all cases of correction of an underpayment or non-payment of a pension or benefit to a member or beneficiary of the Fitchburg Retirement System which results in a onetime retroactive payment of benefits, such payment shall include interest for such period of underpayment or non-payment at the rate annually determined for such period by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

In all cases of correction of an overpayment of a pension or benefit to a member or beneficiary of the Fitchburg Retirement System, the amount of overpayment shall be due from the member or beneficiary, along with interest for said period of overpayment at the rate annually determined by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).
Pursuant to the judgment of the Supreme Judicial Court in Herrick v. Essex Regional Retirement Board, 465 Mass. 801 (2013) and PERAC Memorandum #32, 2013, said interest shall be deemed to be the actuarial equivalent of the adjustment to the pension or benefit as set forth in G.L. c. 32, § 20(5)(c)(2).

G.L. c. 32, § 20(5)(c)(2) – 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.

Travel Regulations:
The Fitchburg Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/servicedetails/Fitchburg.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - 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:	Calvin Brooks, Chairman		
Appointed Member:	Ellen M. Jerszyk	Serves until a successor is appointed	
Elected Member:	John C. Curran	Term Expires:	10/31/20
Elected Member:	Thomas Dateo, Jr.	Term Expires:	10/31/22
Appointed Member:	Norman J. LeBlanc	Term Expires:	10/31/21

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.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2018.

The actuarial liability for active members was	$100,216,458
The actuarial liability for inactive members was	1,535,688
The actuarial liability for retired members was	160,048,143
The total actuarial liability was	$261,800,289
System assets as of that date were (actuarial value)	114,692,143
The unfunded actuarial liability was	$147,108,146
The ratio of system's assets to total actuarial liability was	43.8%
As of that date the total covered employee payroll was	$32,583,145

The normal cost for employees on that date was	9.3% of payroll
The normal cost for the employer including administrative expenses was	5.7% of payroll

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

Investment Return:	7.25% per annum
Rate of Salary Increase:	4.00% per annum

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2018

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)
1/1/2018	$114,692,143	$261,800,289	$147,108,146	43.8%	$32,583,145	451.5%
1/1/2016	$104,037,352	$235,442,983	$131,405,631	44.2%	$30,675,487	428.4%
1/1/2014	$90,318,000	$212,597,000	$122,279,000	42.5%	$27,603,000	443.0%
1/1/2012	$81,376,000	$193,765,000	$112,389,000	42.0%	$27,049,000	415.5%
1/1/2010	$82,821,000	$176,105,000	$93,284,000	47.0%	$26,151,000	356.7%

NOTE 6 - MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retirement in Past Years										
Superannuation	27	22	30	23	15	33	17	24	18	29
Ordinary Disability	1	0	0	0	0	0	0	0	0	0
Accidental Disability	6	1	1	5	1	1	0	0	6	0
Total Retirements	34	23	31	28	16	34	17	24	24	29
Total Retirees, Beneficiaries and Survivors	572	535	562	555	554	555	560	564	568	584
Total Active Members	622	554	554	617	650	610	644	650	671	674
Pension Payments										
Superannuation	$5,737,269	$6,120,201	$6,581,865	$6,991,548	$7,159,117	$7,410,703	$7,622,236	$8,077,287	$7,880,129	$ 8,319,892
Survivor/Beneficiary Payments	303,198	327,552	326,263	324,745	328,056	329,877	352,996	438,841	569,010	601,492
Ordinary Disability	119,809	116,963	115,683	111,586	99,294	92,769	82,271	70,788	139,725	92,118
Accidental Disability	1,069,119	1,133,892	1,172,820	1,252,759	1,373,259	1,377,140	1,403,429	368,053	569,010	601,492
Other	2,040,540	2,090,014	2,165,048	2,263,785	2,317,907	2,412,249	2,582,277	3,585,849	3,802,158	4,101,246
Total Payments for Year	$9,269,935	$9,788,622	$10,361,679	$10,944,423	$11,277,633	$11,622,738	$12,043,209	$12,540,819	$12,960,033	$13,716,241

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Fitchburg Retirement Board leases approximately 820 square feet of space for its offices located at 780 Main Street, Fitchburg, MA, 01420. They signed an initial 3-year lease term entered into on October 15, 2012 ($1,050 per month). The first amendment to the lease extended the terms until October 14, 2018 (effective December 15, 2016 an additional 160 square feet of space for its offices was added, with an increase in the rent to $1,250 per month). The second amendment to the lease signed September 26, 2017, extends the terms until October 14, 2021 with no increase in rent ($1,250 per month). The landlord is Rollstone Bank & Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2017:

For the year ending:	Annual Rent
2018	$15,000
2019	15,000
2020	15,000
2021 (Through October 14, 2021)	11,875
Total future minimum lease payments	$56,875

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

September 1, 2021

Calvin Brooks, Chairperson
Fitchburg Retirement System
718 Main Street
Fitchburg, MA 01420

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

Dear Chairperson Brooks:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Fitchburg 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 recommendation contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

The Audit Report cited a finding that there were retirement contributions withheld from school custodians shift differential pay related to overtime hours. The finding also noted that the school payroll department puts many types of pay into a "stipend" code that has retirement deductions withheld. Some of the payments are regular compensation and some are not.

Follow-up Result: An examination of recent payroll records showed there were no deductions taken from the shift differential overtime paid. Refunds have been processed for the contributions that were incorrectly deducted for this pay code. The Board staff is still working with the school payroll department to determine which stipends are considered regular compensation. This issue is partially resolved.

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

The Commission wishes to acknowledge the effort demonstrated by the staff of the Fitchburg Retirement System to correct the issue from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director

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JWP/tal
cc: Fitchburg Retirement Board Members