Framingham

Retirement System

Audit Report

Jan. 1, 2016 - Dec. 31, 2019

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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January 25, 2023

The Public Employee Retirement Administration Commission has completed an examination of the Framingham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2016 to December 31, 2019. 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.

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 the auditors 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

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Active Members' Retirement Deductions:

We tested retirement deductions from recent payroll registers and found the following errors:

- A member of Metro West Transit (MWT) received a salary increase but the retirement deductions were not increased in payroll. Deductions were based on the prior salary.

- Two members working with the Housing Authority had on call pay that was not subject to retirement deductions. This pay is pre-determined and non-discretionary and should be considered regular compensation.

Recommendation: The Board should review the MWT payroll reports to ensure that the excel spreadsheets and the payroll registers agree and that retirement deductions are correctly calculated. A periodic scan should be done to review both Housing Authority and City payroll as well to ensure that all deductions are included as applicable.

Board Response:

- The Retirement Board has requested that the MWRTA submits payroll registers along with the deduction amounts for each pay period. This will ensure that both reports agree and that the correct deduction amounts are received and posted by the Retirement Board.

- The corrections to on-call pay for the Housing Authority have been made. The Retirement Board will perform periodic checks of Housing Authority payroll to confirm that all deductions are included, as applicable.

2. Cash Management:

The system has excessive year end cash balances in a bank checking account rather than investing in PRIT. We noted the year end cash balance increased from approximately $430,000 at the end of 2016 to over $7 million at the end of the audit period in 2019.

The cash reconciliations, bank statements, and cash flow forecasts were not provided at monthly Board meetings.

Recommendation: Framingham should monitor cash balances with the goal of maximizing investment earnings as well as to ensure sufficient cash is available to meet operating needs. The Board should also adopt an Investment Policy which includes the desired percentage of the portfolio to be in cash.

The monthly cash reconciliations along with bank statements and cash flow forecast reports should be presented to the Board members. The names and dates of reports should be documented in the meeting minutes.

Board Response:
The excessive cash balance has been reduced and will be monitored more closely in the future to ensure that the balance remains at a reasonable amount with the goal of maximizing investment earnings. To help facilitate this, the monthly cash reconciliations, bank statements, and cash flow forecast reports will be presented to the Board at each monthly meeting.

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,			
	2019	2018	2017	2016
Net Assets Available For Benefits:				
Cash	$7,013,951	$4,571,410	$2,259,761	$430,526
PRIT Cash Fund	1,861,036	1,865,029	1,473,259	2,002,036
PRIT Core Fund	346,330,756	301,564,161	314,021,590	271,581,032
Prepaid Expenses	98,959	54,550	17,846	49,831
Accounts Receivable	4,647	42,062	186,605	3,702
Accounts Payable	(175,809)	(24,865)	(15,206)	(18,436)
Total	$355,133,540	$308,072,348	$317,943,855	$274,048,690
Fund Balances:				
Annuity Savings Fund	$70,346,438	$68,125,803	$66,705,188	$64,721,113
Annuity Reserve Fund	19,907,892	19,218,553	18,486,275	18,031,120
Pension Fund	3,312,425	2,723,477	2,918,758	3,195,105
Military Service Fund	5,013	5,008	5,003	4,998
Expense Fund	0	0	0	0
Pension Reserve Fund	261,561,771	217,999,508	229,828,631	188,096,354
Total	$355,133,540	$308,072,348	$317,943,855	$274,048,690

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 2016	$62,022,929	$17,715,392	$3,501,061	$4,993	$0	$174,549,872	$257,794,247
Receipts	7,195,833	531,740	14,629,320	5	1,725,856	18,096,666	42,179,420
Interfund Transfers	(3,478,611)	3,489,071	4,539,723	0	0	(4,550,183)	0
Disbursements	(1,019,038)	(3,705,083)	(19,474,999)	0	(1,725,856)	0	(25,924,977)
Ending Balance 2016	64,721,113	18,031,120	3,195,105	4,998	0	188,096,354	274,048,690
Receipts	7,359,424	542,569	16,325,353	5	1,905,340	45,550,236	71,682,926
Interfund Transfers	(3,877,618)	3,875,325	3,820,253	0	0	(3,817,959)	0
Disbursements	(1,497,730)	(3,962,738)	(20,421,953)	0	(1,905,340)	0	(27,787,762)
Ending Balance 2017	66,705,188	18,486,275	2,918,758	5,003	0	229,828,631	317,943,855
Receipts	7,616,168	569,351	17,519,234	5	2,038,221	(8,066,375)	19,676,604
Interfund Transfers	(4,460,892)	4,453,004	3,770,637	0	0	(3,762,748)	0
Disbursements	(1,734,662)	(4,290,076)	(21,485,151)	0	(2,038,221)	0	(29,548,111)
Ending Balance 2018	68,125,803	19,218,553	2,723,477	5,008	0	217,999,508	308,072,348
Receipts	8,242,909	582,503	19,052,116	5	2,031,662	47,426,803	77,335,997
Interfund Transfers	(4,691,671)	4,700,144	3,856,066	0	0	(3,864,539)	0
Disbursements	(1,330,603)	(4,593,307)	(22,319,234)	0	(2,031,662)	0	(30,274,806)
Ending Balance 2019	$70,346,438	$19,907,892	$3,312,425	$5,013	$0	$261,561,771	$355,133,540

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Members Deductions	$7,218,507	$6,847,734	$6,580,997	$6,272,328
Transfers from Other Systems	790,294	536,130	616,970	719,096
Member Make Up Payments and Re-deposits	72,753	54,227	40,793	46,720
Member Payments from Rollovers	80,524	92,390	37,367	74,854
Investment Income Credited to Member Accounts	80,831	85,687	83,296	82,836
Sub Total	8,242,909	7,616,168	7,359,424	7,195,833
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	582,503	569,351	542,569	531,740
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	932,033	978,939	706,197	723,207
Received from Commonwealth for COLA and Survivor Benefits	461,534	169,881	153,484	209,818
Pension Fund Appropriation	17,578,549	16,370,413	15,465,672	13,686,435
Settlement of Workers' Compensation Claims	80,000	0	0	9,860
Recovery of 91A Overearnings	0	0	0	0
Sub Total	19,052,116	17,519,234	16,325,353	14,629,320
Military Service Fund:				
Investment Income Credited to the Military Service Fund	5	5	5	5
Expense Fund:				
Investment Income Credited to the Expense Fund	2,031,662	2,038,221	1,905,340	1,725,856
Pension Reserve Fund:				
Federal Grant Reimbursement	46,551	49,477	59,446	69,539
Excess Investment Income	47,380,252	(8,115,852)	45,490,790	18,027,127
Sub Total	47,426,803	(8,066,375)	45,550,236	18,096,666
Total Receipts, Net	$77,335,997	$19,676,604	$71,682,926	$42,179,420

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Refunds to Members	$340,264	$722,447	$477,247	$398,256
Transfers to Other Systems	990,340	1,012,215	1,020,483	620,782
Sub Total	1,330,603	1,734,662	1,497,730	1,019,038
Annuity Reserve Fund:				
Annuities Paid	4,593,307	4,290,076	3,962,738	3,702,803
Option B Refunds	0	0	0	2,280
Sub Total	4,593,307	4,290,076	3,962,738	3,705,083
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	16,763,950	15,862,975	14,968,636	14,267,053
Survivorship Payments	876,587	870,393	865,980	838,300
Ordinary Disability Payments	185,914	189,839	188,829	183,852
Accidental Disability Payments	2,369,289	2,299,129	2,283,754	2,161,698
Accidental Death Payments	738,157	756,225	767,064	784,758
Section 101 Benefits	99,730	94,774	115,704	100,878
3 (8) (c) Reimbursements to Other Systems	1,020,341	1,152,546	978,673	891,997
State Reimbursable COLA's Paid	265,266	259,270	253,314	246,464
Sub Total	22,319,234	21,485,151	20,421,953	19,474,999
Expense Fund:				
Salaries	255,722	260,624	234,758	223,148
Legal Expenses	11,481	17,233	24,928	17,054
Travel Expenses	5,577	4,406	6,730	4,808
Administrative Expenses	23,270	26,545	26,119	34,076
Education and Training	4,270	2,880	3,550	3,200
Furniture and Equipment	1,658	1,670	5,240	0
Management Fees	1,676,957	1,656,376	1,540,931	1,399,266
Service Contracts	35,063	51,543	46,487	27,982
Fiduciary Insurance	17,664	16,944	16,597	16,321
Sub Total	2,031,662	2,038,221	1,905,340	1,725,856
Total Disbursements	$30,274,806	$29,548,111	$27,787,762	$25,924,977

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Investment Income Received From:				
Cash	$11,984	$7,439	$3,416	$5,424
Pooled or Mutual Funds	8,781,734	8,656,927	8,162,544	7,516,786
Total Investment Income	8,793,718	8,664,366	8,165,959	7,522,210
Plus:				
Realized Gains	16,229,454	14,479,495	13,427,692	7,447,670
Unrealized Gains	39,251,503	11,325,053	26,428,348	22,631,711
Sub Total	55,480,957	25,804,549	39,856,040	30,079,381
Less:				
Realized Loss	0	0	0	(144,439)
Unrealized Loss	(14,199,423)	(39,891,503)	0	(17,089,587)
Sub Total	(14,199,423)	(39,891,503)	0	(17,234,027)
Net Investment Income (Loss)	50,075,253	(5,422,588)	48,021,999	20,367,564
Income Required:				
Annuity Savings Fund	80,831	85,687	83,296	82,836
Annuity Reserve Fund	582,503	569,351	542,569	531,740
Military Service Fund	5	5	5	5
Expense Fund	2,031,662	2,038,221	1,905,340	1,725,856
Total Income Required	2,695,000	2,693,264	2,531,209	2,340,438
Net Investment Income (Loss)	50,075,253	(5,422,588)	48,021,999	20,367,564
Less: Total Income Required	2,695,000	2,693,264	2,531,209	2,340,438
Excess Income (Loss) To The Pension Reserve Fund	$47,380,252	($8,115,852)	$45,490,790	$18,027,127

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2019	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$7,013,951	2.0%
PRIT Cash Fund	1,861,036	0.5%
PRIT Core Fund	346,330,756	97.5%
Grand Total	$355,205,742	100.0%

For the year ending December 31, 2019, the rate of return for the investments of the Framingham Retirement System was 16.39%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Framingham Retirement System averaged 8.04%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Framingham Retirement System was 9.30%.

The composite rate of return for all retirement systems for the year ending December 31, 2019 was 16.90%. For the five-year period ending December 31, 2019, the composite rate of return for the investments of all retirement systems averaged 7.95%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.22%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Framingham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

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

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

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 72.

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 $952.32 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $952.32 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $300,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (OPTION D)

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

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.

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 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Accountant 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:	Richard C. Howarth, Jr., Chairperson		
Appointed Member:	Louise L. I. Miller	Serves until a successor is appointed	
Elected Member:	Peter J. Rovinelli	Term Expires:	06/30/25
Elected Member:	Joseph A. Fonseca	Term Expires:	12/17/23
Appointed Member:	John W. White, Jr.	Term Expires:	01/15/24

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

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

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

BOARD REGULATIONS

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

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2020.

The actuarial liability for active members was	$194,389,159
The actuarial liability for vested terminated members was	6,122,066
The actuarial liability for non-vested terminated members was	2,381,416
The actuarial liability for retired members was	262,591,945
The total actuarial liability was	$465,484,586
System assets as of that date were (actuarial value)	338,989,467
The unfunded actuarial liability was	$126,495,119
The ratio of system's assets to total actuarial liability was	72.8%
As of that date the total covered employee payroll was	$71,607,173

The normal cost for employees on that date was	9.2% of payroll
The normal cost for the employer including administrative expenses was	7.6% of payroll

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

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

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2020

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)
1/1/2020	$338,989,467	$465,484,586	$126,495,119	72.8%	$71,607,173	176.7%
1/1/2018	$301,850,288	$422,889,390	$121,039,102	71.4%	$66,275,085	182.6%
1/1/2016	$262,574,377	$385,949,752	$123,375,375	68.0%	$64,069,520	192.6%
1/1/2014	$228,738,704	$339,182,790	$110,444,086	67.4%	$55,765,757	198.1%
1/1/2012	$208,293,697	$309,695,552	$101,401,855	67.3%	$51,901,796	195.4%

NOTE 5 - MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Retirement in Past Years										
Superannuation	35	49	25	33	40	46	32	41	41	48
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	2	1	0	4	1	1	0	0	2	1
Total Retirements	37	50	25	37	41	47	32	41	43	49
Total Retirees, Beneficiaries and Survivors	789	807	787	767	796	815	815	834	853	891
Total Active Members	1,070	1,010	1,120	1,130	1,151	1,205	1,233	1,224	1,296	1,287
Pension Payments										
Superannuation	$10,634,737	$11,380,872	$11,718,294	$12,080,590	$12,782,844	$13,488,143	$14,267,053	$14,968,636	$15,862,975	$16,763,950
Survivor/Beneficiary Payments	809,251	807,693	818,322	800,735	873,600	851,110	838,300	865,980	870,393	876,587
Ordinary Disability	311,384	275,193	224,792	205,104	197,549	180,382	183,852	188,829	189,839	185,914
Accidental Disability	1,972,160	1,987,619	2,026,018	2,010,287	2,143,135	2,133,573	2,161,698	2,283,754	2,299,129	2,369,289
Other	1,369,361	1,341,657	1,335,749	1,344,303	2,166,128	2,213,281	2,024,096	2,114,755	2,262,815	2,123,494
Total Payments for Year	$15,096,893	$15,793,034	$16,123,175	$16,441,019	$18,163,256	$18,866,489	$19,474,999	$20,421,953	$21,485,151	$22,319,234

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

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair* JOHN W. PARSONS, ESQ., *Executive Director*

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

December 8, 2023

Peter Rovinelli, Vice Chairperson
Framingham Retirement Board
150 Concord Street
Room B-31
Framingham, MA 01702

REFERENCE: Report of the Examination of the Framingham Retirement Board for the four-year period from January 1, 2016 through December 31, 2019.

Dear Vice Chairperson Rovinelli:

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

1. The Audit Report cited a finding that retirement deductions were not correctly calculated for an active member of Metro West Transit and that on call pay at the Housing Authority was not included in regular compensation.

Follow-up Result: A review of the most recent payrolls from November 2023 for Metro West Transit and the Housing Authority found that retirement deductions were correctly calculated and retirement deductions were taken from on call pay at the Housing Authority. This issue is resolved.

2. The Audit Report cited a finding that the system had excessive year end cash balances in a bank checking account rather than investing in PRIT and that cash reconciliations, bank statements and cash flow forecasts were not provided at monthly Board meetings.

Follow-up Result: We reviewed the December 2022 year end and four recent 2023 cash reconciliations and noted that the cash balances were not excessive. The cash balance at

December 31, 2022 was approximately $8,000. We noted that monthly cash reconciliations, including bank statements, were not provided at monthly meetings from December 2022 through September 2023 and cash flow forecasts were not consistently presented to the Board during these months. This issue is partially resolved.

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

The Commission wishes to acknowledge the effort demonstrated by the staff of the Framingham Retirement Board to correct many of the issues from the most recent examination of the system. PERAC auditors will conduct further follow-up as warranted to ensure corrections have been made in those areas that have not been resolved at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director

JWP/tal
cc: Framingham Retirement Board Members