

**HINGHAM**  
**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

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.

March 27, 2023

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

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that investment balances are accurately stated, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, 7) that required member documentation is maintained, 8) that appropriations certified by PERAC for the fiscal years covered by the audit have been paid to the retirement system, and 9) that refunds issued by the system were correctly calculated.

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

In our opinion, for those areas tested, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exceptions noted in the findings presented in this report.

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

Sincerely,



John W. Parsons, Esq.  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Service Purchases:**

Errors related to members buying time were found in the reviews of both active members and retired members. The errors included:

- Charging actuarial interest for buying previous non-member time with Hingham when they should be charged buyback interest.
- One member re-depositing a refund was given a one-year window for buyback interest when they had already received the one-year window at a prior system. Members do not receive a second one-year period of buyback interest when transferring to a new system.
- Veteran buybacks for members who transferred in from another system used the Hingham starting salary rather than the starting salary with the prior system.
- Allowing a member (now retired) who did not meet the legal definition of “veteran” to buy 13 months of inactive duty service.
- One retiree was not credited with enough service when buying a portion of their non-member time because the Board granted service starting at the beginning of the period rather than using reverse chronological order as required by 840 CMR 15.02 (2).

**Recommendation:** These service purchases must be recalculated. Refunds should be issued in the cases where the member was overcharged. In cases where the member was undercharged, they should be notified of the amount owed and informed that if they do not pay this then their creditable service will be lowered.

## **Board Response:**

Service purchases that were processed incorrectly have been recalculated and verified by PERAC. The Board will issue refunds to members who were overcharged and will review cases in which members were undercharged. In the matter which a retiree did not receive enough credit for a Buyback, the service has been corrected and payments have been adjusted retroactively.

Board Staff will continue to review the rules governing which interest rates apply prior to performing any Buyback calculations. Each DD214 form will be carefully reviewed while working with the Veteran’s Agent to ensure eligibility and accuracy.

## **2. New Retirees:**

Twenty members who retired during the audit period were reviewed. The following errors were found:

- Four retirees had an incorrect three-year average salary due to errors in the determination of what was and was not regular compensation. The third finding covers regular compensation issues.
- Two retirees had their regular compensation lowered due to the anti-spiking provisions, but no refunds for the deductions associated with the adjustment were issued.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

- One retiree had an incorrect option C factor because the beneficiary's date of birth was incorrect.
- One accidental disability retiree is being paid the "\$15 per year of service" veteran benefit twice.
- The two retirees mentioned in the last two bullets of the first finding had an incorrect amount of creditable service.

**Recommendation:** Cited retirees must be corrected. Anti-spiking refunds should include actuarial interest, all other amounts owed get adjusted using Hingham's correction of errors rate.

### ***Board Response:***

Average salary and anti-spiking calculations for the cited retirees have been recalculated. The Board will issue refunds where necessary and will review cases where a retiree's allowance would need to be adjusted. In the case where a retiree received double the veteran's allowance, the duplicate amount has been removed and the retiree has been notified.

### **3. Regular Compensation:**

Payrolls from all units were reviewed. The following errors were found:

- There were three instances of the school withholding contributions on pay that was for unpredictable hours above an employee's regular schedule.
- One member who retired from working at the school did not have the stipend for running the homework club included in the three-year average salary. Since this payment was pre-determined, unlike the payments in the first bullet, it should be considered regular compensation and used in the retirement allowance calculation.
- The school withheld contributions on an employee's travel stipend. 840 CMR 15.03 3(f) specifically excludes payment for "travel" from being regular compensation.
- The South Shore Regional Emergency Communications Center (SSRECC) is withholding contributions on the premium paid for working holidays. 840 CMR 15.03 3(f) states that these are not regular compensation except for a few specified jobs, none of which are employed by SSRECC.
- SSRECC employees who work overtime and have a shift differential payment for the overtime hours are having contributions withheld on them. Shift differential payments are generally regular compensation, but they are not when they apply to overtime.
- Although the town fixed the way the police department's fitness stipend was handled, one retiree did have it improperly included in two of the three years used for the average salary calculation.

**Recommendation:** The Board should work with the payroll departments to fix the cited errors.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

### **Board Response:**

The School's payroll department has been notified and deduction codes have been corrected. In the matter of fitness stipends, the Board is aware it is not regular compensation and no deductions are taken. In this case, it was a result of user error as the incorrect pay code was used. With regards to SSRECC deductions, the errors have already been addressed and new payroll codes have been created.

The Board will continue to work with payroll departments to review pay codes and provide clarification where needed as to what constitutes regular compensation and what should be excluded.

### **FINAL DETERMINATION:**

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

# ANNUAL STATEMENTS (as submitted)

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2019	2018	2017	2016
<b>Net Assets Available For Benefits:</b>				
Cash	\$937,017	\$389,666	\$510,481	\$424,893
Pooled Domestic Equity Funds	0	0	0	29,094,569
Pooled International Equity Funds	0	0	0	13,137,835
Pooled Domestic Fixed Income Funds	0	0	0	16,379,651
Pooled International Fixed Income Funds	0	0	0	9,519,070
Pooled Alternative Investment Funds	0	0	0	3,720,838
Pooled Real Estate Funds	0	0	0	11,812,761
Pooled International Balanced Funds	0	0	0	11,588,195
Hedge Funds	0	0	0	4,938,587
PRIT Cash Fund	493	453	282	10,174
PRIT Core Fund	131,184,608	114,693,028	118,810,611	1,828,421
Accounts Receivable	52,140	86,387	143,948	72,788
Accounts Payable	0	(7,421)	(14,178)	(37,642)
<b>Total</b>	<u>\$132,174,258</u>	<u>\$115,162,115</u>	<u>\$119,451,144</u>	<u>\$102,490,139</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$29,681,887	\$28,762,047	\$28,706,884	\$27,394,063
Annuity Reserve Fund	7,807,516	7,374,527	6,470,726	6,281,150
Pension Fund	0	184,693	2,307,718	4,233,448
Military Service Fund	13,950	13,936	13,922	13,908
Expense Fund	0	0	0	0
Pension Reserve Fund	94,670,905	78,826,912	81,951,893	64,567,571
<b>Total</b>	<u>\$132,174,258</u>	<u>\$115,162,115</u>	<u>\$119,451,144</u>	<u>\$102,490,139</u>

## ANNUAL STATEMENTS (as submitted) (Continued)

### STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2016	\$25,706,050	\$6,463,632	\$4,572,100	\$5,548	\$0	\$58,823,063	\$95,570,393
Receipts	3,095,597	189,180	4,818,552	8,360	658,857	7,311,930	16,082,477
Interfund Transfers	(977,840)	980,767	1,564,496	0	0	(1,567,423)	0
Disbursements	(429,745)	(1,352,428)	(6,721,701)	0	(658,857)	0	(9,162,731)
Ending Balance 2016	27,394,063	6,281,150	4,233,448	13,908	0.00	64,567,571	102,490,139
Receipts	3,053,355	189,263	5,057,158	14	746,755	17,384,322	26,430,867
Interfund Transfers	(1,427,352)	1,427,352	0	0	0	0	0
Disbursements	(313,182)	(1,427,039)	(6,982,887)	0	(746,755)	0	(9,469,863)
Ending Balance 2017	28,706,884	6,470,726	2,307,718	13,922	0	81,951,893	119,451,144
Receipts	3,450,593	212,249	5,316,092	14	767,674	(3,125,042)	6,621,579
Interfund Transfers	(2,272,353)	2,272,292	0	0	0	61	(0)
Disbursements	(1,123,077)	(1,580,741)	(7,439,117)	0	(767,674)	0	(10,910,608)
Ending Balance 2018	28,762,047	7,374,527	184,693	13,936	0	78,826,912	115,162,115
Receipts	3,583,754	231,825	5,683,524	14	785,282	17,964,344	28,248,743
Interfund Transfers	(1,930,625)	1,937,855	2,113,121	0	0	(2,120,351)	0
Disbursements	(733,289)	(1,736,691)	(7,981,338)	0	(785,282)	0	(11,236,600)
Ending Balance 2019	\$29,681,887	\$7,807,516	\$0	\$13,950	\$0	\$94,670,905	\$132,174,258

# ANNUAL STATEMENTS (as submitted) (Continued)

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
<b>Annuity Savings Fund:</b>				
Members Deductions	\$3,101,489	\$2,995,060	\$2,902,881	\$2,762,327
Transfers from Other Systems	298,042	391,026	43,638	230,218
Member Make Up Payments and Re-deposits	7,721	13,630	44,686	18,942
Member Payments from Rollovers	73,098	3,282	25,037	39,510
Investment Income Credited to Member Accounts	<u>103,404</u>	<u>47,595</u>	<u>37,113</u>	<u>44,601</u>
Sub Total	<u>3,583,754</u>	<u>3,450,593</u>	<u>3,053,355</u>	<u>3,095,597</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>231,825</u>	<u>212,249</u>	<u>189,263</u>	<u>189,180</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	230,277	209,205	221,266	205,530
Received from Commonwealth for COLA and Survivor Benefits	49,994	39,043	77,354	78,911
Pension Fund Appropriation	5,397,253	5,067,843	4,758,538	4,528,111
Settlement of Workers' Compensation Claims	6,000	0	0	6,000
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,683,524</u>	<u>5,316,092</u>	<u>5,057,158</u>	<u>4,818,552</u>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	8,355
Investment Income Credited to the Military Service Fund	<u>14</u>	<u>14</u>	<u>14</u>	<u>6</u>
Sub Total	<u>14</u>	<u>14</u>	<u>14</u>	<u>8,360</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>785,282</u>	<u>767,674</u>	<u>746,755</u>	<u>658,857</u>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	16,694	19,319	6,627	29,746
Interest Not Refunded	39,000	4,308	6,520	4,288
Miscellaneous Income	0	27,791	0	258
Excess Investment Income	<u>17,908,651</u>	<u>(3,176,459)</u>	<u>17,371,176</u>	<u>7,277,639</u>
Sub Total	<u>17,964,344</u>	<u>(3,125,042)</u>	<u>17,384,322</u>	<u>7,311,930</u>
<b>Total Receipts, Net</b>	<b>\$28,248,743</b>	<b>\$6,621,579</b>	<b>\$26,430,867</b>	<b>\$16,082,477</b>

# ANNUAL STATEMENTS (as submitted) (Continued)

## STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2019	2018	2017	2016
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$309,263	\$534,257	\$242,441	\$232,156
Transfers to Other Systems	<u>424,026</u>	<u>588,820</u>	<u>70,741</u>	<u>197,588</u>
Sub Total	<u>733,289</u>	<u>1,123,077</u>	<u>313,182</u>	<u>429,745</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	<u>1,736,691</u>	<u>1,580,741</u>	<u>1,427,039</u>	<u>1,352,428</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	5,578,139	5,219,809	5,021,182	5,633,991
Survivorship Payments	395,909	363,266	236,543	267,566
Ordinary Disability Payments	0	0	0	13,418
Accidental Disability Payments	438,909	348,977	311,377	345,456
Accidental Death Payments	155,908	173,185	142,721	198,030
Section 101 Benefits	48,130	46,960	27,000	29,860
3 (B) (c) Reimbursements to Other Systems	267,079	226,646	206,736	160,405
State Reimbursable COLA's Paid	<u>1,097,264</u>	<u>1,060,274</u>	<u>1,037,329</u>	<u>72,974</u>
Sub Total	<u>7,981,338</u>	<u>7,439,117</u>	<u>6,982,887</u>	<u>6,721,701</u>
<b>Expense Fund:</b>				
Salaries	40,772	37,654	57,989	82,241
Legal Expenses	0	4,335	12,793	1,020
Travel Expenses	501	603	1,055	817
Administrative Expenses	5,374	12,417	22,044	7,087
Professional Services	18,000	0	0	12,500
Actuarial Services	17,500	0	13,000	12,300
Education and Training	13,619	29,127	1,750	1,547
Furniture and Equipment	0	0	0	1,512
Management Fees	637,436	628,377	573,458	445,484
Consultant Fees	17,250	23,000	31,500	40,000
Service Contracts	28,700	26,300	27,430	48,692.50
Fiduciary Insurance	<u>6,131</u>	<u>5,862</u>	<u>5,736</u>	<u>5,656</u>
Sub Total	<u>785,282</u>	<u>767,674</u>	<u>746,755</u>	<u>658,857</u>
<b>Total Disbursements</b>	<u>\$11,236,600</u>	<u>\$10,910,608</u>	<u>\$9,469,863</u>	<u>\$9,162,731</u>

# ANNUAL STATEMENTS (as submitted) (Continued)

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
<b>Investment Income Received From:</b>				
Cash	\$121	\$107	\$71	\$73
Pooled or Mutual Funds	<u>3,314,980</u>	<u>3,262,092</u>	<u>3,082,581</u>	<u>2,935,131</u>
<b>Total Investment Income</b>	<u>3,315,100</u>	<u>3,262,199</u>	<u>3,082,652</u>	<u>2,935,205</u>
<b>Plus:</b>				
Realized Gains	6,157,844	5,488,219	4,756,372	2,598,028
Unrealized Gains	<u>14,959,706</u>	<u>4,248,621</u>	<u>10,986,591</u>	<u>13,610,443</u>
Sub Total	<u>21,117,550</u>	<u>9,736,840</u>	<u>15,742,962</u>	<u>16,208,470</u>
<b>Less:</b>				
Realized Loss	0	0	(174,182)	(641,692)
Unrealized Loss	<u>(5,403,474)</u>	<u>(15,147,967)</u>	<u>(307,111)</u>	<u>(10,331,700)</u>
Sub Total	<u>(5,403,474)</u>	<u>(15,147,967)</u>	<u>(481,293)</u>	<u>(10,973,392)</u>
<b>Net Investment Income</b>	<u>19,029,177</u>	<u>(2,148,928)</u>	<u>18,344,321</u>	<u>8,170,283</u>
<b>Income Required:</b>				
Annuity Savings Fund	103,404	47,595	37,113	44,601
Annuity Reserve Fund	231,825	212,249	189,263	189,180
Military Service Fund	14	14	14	6
Expense Fund	<u>785,282</u>	<u>767,674</u>	<u>746,755</u>	<u>658,857</u>
<b>Total Income Required</b>	<u>1,120,526</u>	<u>1,027,531</u>	<u>973,146</u>	<u>892,644</u>
Net Investment Income	<u>19,029,177</u>	<u>(2,148,928)</u>	<u>18,344,321</u>	<u>8,170,283</u>
Less: Total Income Required	<u>1,120,526</u>	<u>1,027,531</u>	<u>973,146</u>	<u>892,644</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$17,908,651</u>	<u>(\$3,176,459)</u>	<u>\$17,371,176</u>	<u>\$7,277,639</u>

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2019		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$937,017	0.7%
PRIT Cash Fund	493	0.0%
PRIT Core Fund	<u>131,184,608</u>	<u>99.3%</u>
<b>Grand Total</b>	<u>\$132,122,118</u>	<u>100.0%</u>

For the year ending December 31, 2019, the rate of return for the investments of the Hingham Retirement System was 16.73%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Hingham Retirement System averaged 7.92%. 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 Hingham Retirement System was 9.14%.

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%.

## SUPPLEMENTARY INFORMATION (Continued)

### SUMMARY OF PLAN PROVISIONS

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

### ADMINISTRATION

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

### PARTICIPATION

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

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

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## SUPPLEMENTARY INFORMATION (Continued)

### MEMBER CONTRIBUTIONS

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

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

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

### SUPERANNUATION RETIREMENT

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

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

## SUPPLEMENTARY INFORMATION (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## SUPPLEMENTARY INFORMATION (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$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.

## SUPPLEMENTARY INFORMATION (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE (OPTION D)

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

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

### COST OF LIVING

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### METHODS OF PAYMENT

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

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

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

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

### ALLOCATION OF PENSION COSTS

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

## SUPPLEMENTARY INFORMATION (Continued)

### SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

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

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

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

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town 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: Susan M. Nickerson, Chairperson

Appointed Member: Eileen A. McCracken Term Expires: 06/30/2024

Elected Member: David P. Jones Term Expires: 08/31/2024

Elected Member: Jean M. Montgomery Term Expires: 07/29/2025

Appointed Member: Charles J. Cristello Term Expires: 06/22/2024

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

## SUPPLEMENTARY INFORMATION (Continued)

### ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries as of January 1, 2022.

The actuarial liability for active members was	\$88,210,033
The actuarial liability for inactive members was	2,807,350
The actuarial liability for retired members and beneficiaries was	<u>108,200,239</u>
The total actuarial liability was	\$199,217,622
System assets as of that date were (actuarial value)	<u>156,990,903</u>
The unfunded actuarial liability was	<u>\$42,226,719</u>
The ratio of system's assets to total actuarial liability was	78.8%
As of that date the total covered employee payroll was	\$35,721,960

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer including administrative expenses was	8.0% 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, 2022

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 )
1/1/2022	\$156,990,903	\$199,217,622	\$42,226,719	78.8%	\$35,721,960	118.2%
1/1/2020	\$127,352,934	\$180,896,741	\$53,543,807	70.4%	\$33,091,834	161.8%
1/1/2018	\$114,967,923	\$162,064,331	\$47,096,408	70.9%	\$32,309,535	145.8%
1/1/2016	\$101,018,828	\$148,847,803	\$47,828,975	67.9%	\$30,179,469	158.5%
1/1/2014	\$88,826,629	\$130,408,659	\$41,582,030	68.1%	\$27,037,796	153.8%

## SUPPLEMENTARY INFORMATION (Continued)

### MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Retirement in Past Years</b>										
Superannuation	11	20	17	10	20	24	12	13	21	17
Ordinary Disability	0	0	0	1	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	1	0
<b>Total Retirements</b>	11	20	17	11	20	24	12	13	22	17
 Total Retirees, Beneficiaries and Survivors	272	282	289	293	300	316	316	305	327	344
 Total Active Members	560	538	571	620	657	654	643	655	697	676
 <b>Pension Payments</b>										
Superannuation	\$4,022,208	\$4,311,895	\$4,544,586	\$4,664,883	\$4,935,794	\$5,336,363	\$5,633,991	\$5,021,182	\$5,219,809	\$5,578,139
Survivor/Beneficiary Payments	164,206	190,898	228,269	248,533	250,353	269,781	267,566	236,543	363,266	395,909
Ordinary Disability	63,372	64,764	66,359	76,475	47,147	28,916	13,418	0	0	0
Accidental Disability	291,299	288,204	322,895	326,863	330,842	351,429	345,456	311,377	348,977	438,909
Other*	556,573	502,833	485,201	484,932	464,730	465,625	461,270	1,413,785	1,507,065	1,568,381
<b>Total Payments for Year</b>	<u>\$5,097,658</u>	<u>\$5,358,594</u>	<u>\$5,647,310</u>	<u>\$5,801,686</u>	<u>\$6,028,866</u>	<u>\$6,452,114</u>	<u>\$6,721,701</u>	<u>\$6,982,887</u>	<u>\$7,439,117</u>	<u>\$7,981,338</u>

\* A breakdown of this amount for the years under audit can be seen on the Statement of Disbursements page of this report.



**COMMONWEALTH OF MASSACHUSETTS**

**Public Employee Retirement Administration Commission**

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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

WILLIAM T. KEEFE, *Executive Director*

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

March 28, 2024

Charles Cristello, Chairperson  
Hingham Retirement Board  
210 Central Street  
Hingham, MA 02043

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

Dear Chairperson Cristello:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Hingham 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 matter discussed at the completion of the audit. The results are as follows:

**1. The Audit Report cited a finding that there were various errors made in the calculations for members who were purchasing creditable service.**

**Follow-up Result:** Members who overpaid for their creditable service were refunded. For members who underpaid, the Board is in the process of making the necessary corrections. This issue will be resolved once the corrections have been completed.

**2. The Audit Report cited a finding that there were various errors related to members who retired during the audit period.**

**Follow-up Result:** Retirees whose errors had resulted in an underpayment have been corrected. The retiree who was receiving two veterans' allowances was reduced to one, and the retiree who did not meet the legal definition of veteran had the veterans' allowance taken away. The Board is in the process of making corrections to the remainder of the retiree calculation issues. This issue will be resolved when the corrections have been completed.

**3. The Audit Report cited a finding that there were errors in the determination of what was and was not considered regular compensation. These errors occurred mainly in the school department and the South Shore Regional Emergency Communications Center (SSRECC) payrolls.**



Hingham follow up letter  
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**Follow-up Result:** The school department and the SSRECC codes have been corrected. This issue is resolved.

The additional matter discussed has been reviewed and has not been resolved.

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,



William T. Keefe  
Executive Director

WTK/tal  
cc: Hingham Retirement Board Members