

LEOMINSTER
RETIREMENT SYSTEM
AUDIT REPORT
JAN. 1, 2014 - DEC. 31, 2017



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

Letter from the Executive Director	1
Statement of Ledger Assets and Liabilities.....	2
Statement of Changes in Fund Balances	3
Statement of Receipts.....	4
Statement of Disbursements.....	5
Investment Income.....	6
Schedule of Allocation of Investments Owned.....	7
Supplementary Investment Regulations.....	8
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	9
Note 2 - Significant Accounting Policies.....	16
Note 3 - Supplementary Membership Regulations.....	18
Note 4 - Administration of the System	19
Note 5 - Actuarial Valuation and Assumptions.....	20
Note 6 - Membership Exhibit.....	21

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOHN W. PARSONS, ESQ., *Executive Director*

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October 9, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Leominster Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2014 to December 31, 2017. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Leominster Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Scott Henderson and Karen Casper 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



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	\$204,925	\$510,845	\$489,224	\$1,823,715
Pooled Domestic Equity Funds	10,702,474	9,954,116	7,835,160	7,884,912
Pooled International Equity Funds	17,986,560	14,633,286	14,445,627	14,842,351
Pooled Global Equity Funds	32,229,460	35,832,234	42,178,981	42,427,178
PRIT Cash Fund	9,600,000	0	0	0
PRIT Core Fund	136,871,949	114,768,903	93,130,459	88,808,926
Accounts Receivable	0	33,256	62,019	30,978
Accounts Payable	(16,596)	(8,015)	(5,873)	(9,956)
Total	<u>\$207,578,771</u>	<u>\$175,724,624</u>	<u>\$158,135,598</u>	<u>\$155,808,105</u>
Fund Balances:				
Annuity Savings Fund	\$28,121,436	\$29,006,386	\$28,142,849	\$27,151,565
Annuity Reserve Fund	\$9,792,664	\$8,025,905	\$7,475,720	\$7,292,179
Pension Fund	\$18,707,011	\$17,720,335	\$16,296,899	\$14,592,020
Military Service Fund	\$27,357	\$27,325	\$34,857	\$34,822
Expense Fund	\$0	\$0	\$0	\$0
Pension Reserve Fund	\$150,930,305	\$120,944,673	\$106,185,273	\$106,737,518
Total	<u>\$207,578,771</u>	<u>\$175,724,624</u>	<u>\$158,135,598</u>	<u>\$155,808,105</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2014	\$26,732,885	\$6,555,377	\$12,770,782	\$34,787	\$0	\$97,754,814	\$143,848,645
Receipts	\$2,923,225	\$207,203	\$9,005,013	\$35	\$1,083,576	\$9,017,733	\$22,236,785
Interfund Transfers	(\$1,807,610)	\$1,842,639	\$0	\$0	\$0	(\$35,029)	(\$0)
Disbursements	(\$696,935)	(\$1,313,040)	(\$7,183,776)	\$0	(\$1,083,576)	\$0	(\$10,277,326)
Ending Balance 2014	\$27,151,565	\$7,292,179	\$14,592,020	\$34,822	\$0	\$106,737,518	\$155,808,105
Receipts	\$2,759,962	\$220,533	\$9,076,333	\$35	\$1,114,581	(\$552,249)	\$12,619,194
Interfund Transfers	(\$1,402,046)	\$1,402,043	\$0	\$0	\$0	\$3	(\$0)
Disbursements	(\$366,632)	(\$1,439,035)	(\$7,371,454)	\$0	(\$1,114,581)	\$0	(\$10,291,701)
Ending Balance 2015	\$28,142,849	\$7,475,720	\$16,296,899	\$34,857	\$0	\$106,185,273	\$158,135,598
Receipts	\$3,202,239	\$238,767	\$9,139,442	\$32	\$1,107,108	\$14,762,150	\$28,449,737
Interfund Transfers	(\$1,999,207)	\$2,009,520	\$0	(\$7,563)	\$0	(\$2,749)	(\$0)
Disbursements	(\$339,494)	(\$1,698,102)	(\$7,716,006)	\$0	(\$1,107,108)	\$0	(\$10,860,710)
Ending Balance 2016	\$29,006,386	\$8,025,905	\$17,720,335	\$27,325	\$0	\$120,944,673	\$175,724,624
Receipts	\$2,972,690	\$267,111	\$9,338,150	\$32	\$1,264,053	\$29,985,631	\$43,827,668
Interfund Transfers	(\$3,235,408)	\$3,235,408	\$0	\$0	\$0	\$0	\$0
Disbursements	(\$622,233)	(\$1,735,760)	(\$8,351,474)	\$0	(\$1,264,053)	\$0	(\$11,973,520)
Ending Balance 2017	\$28,121,436	\$9,792,664	\$18,707,011	\$27,357	\$0	\$150,930,305	\$207,578,771

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	\$2,774,103	\$2,732,736	\$2,592,147	\$2,502,419
Transfers from Other Systems	123,305	358,879	93,992	341,494
Member Make Up Payments and Re-deposits	34,238	48,672	32,178	44,141
Member Payments from Rollovers	3,733	24,393	5,118	2,096
Investment Income Credited to Member Accounts	<u>37,312</u>	<u>37,558</u>	<u>36,527</u>	<u>33,074</u>
Sub Total	<u>2,972,690</u>	<u>3,202,239</u>	<u>2,759,962</u>	<u>2,923,225</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>267,111</u>	<u>238,767</u>	<u>220,533</u>	<u>207,203</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	182,558	159,612	164,025	148,619
Pension Fund Appropriation	50,290	82,292	125,119	162,536
Settlement of Workers' Compensation Claims	9,096,723	8,890,538	8,787,188	8,687,572
Recovery of 91A Overearnings	0	7,000	0	0
	<u>8,579</u>	<u>0</u>	<u>0</u>	<u>6,287</u>
Sub Total	<u>9,338,150</u>	<u>9,139,442</u>	<u>9,076,333</u>	<u>9,005,013</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>32</u>	<u>32</u>	<u>35</u>	<u>35</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>1,264,053</u>	<u>1,107,108</u>	<u>1,114,581</u>	<u>1,083,576</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	64,936	84,381	90,300	73,198
Interest Not Refunded	86	0	177	281
Miscellaneous Income	0	0	0	18,827
Excess Investment Income	<u>29,920,610</u>	<u>14,677,769</u>	<u>(642,726)</u>	<u>8,925,427</u>
Sub Total	<u>29,985,631</u>	<u>14,762,150</u>	<u>(552,249)</u>	<u>9,017,733</u>
Total Receipts, Net	<u>\$43,827,668</u>	<u>\$28,449,737</u>	<u>\$12,619,194</u>	<u>\$22,236,785</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	\$278,651	\$174,941	\$181,887	\$404,139
Transfers to Other Systems	<u>343,582</u>	<u>164,553</u>	<u>184,745</u>	<u>292,796</u>
Sub Total	<u>622,233</u>	<u>339,494</u>	<u>366,632</u>	<u>696,935</u>
Annuity Reserve Fund:				
Annuities Paid	1,735,760	1,546,591	1,420,047	1,313,040
Option B Refunds	<u>0</u>	<u>151,511</u>	<u>18,988</u>	<u>0</u>
Sub Total	<u>1,735,760</u>	<u>1,698,102</u>	<u>1,439,035</u>	<u>1,313,040</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	6,059,328	5,588,642	5,273,635	5,081,938
Survivorship Payments	311,720	305,978	319,049	317,305
Ordinary Disability Payments	62,961	54,376	54,376	66,967
Accidental Disability Payments	1,239,854	1,248,943	1,219,148	1,152,798
Accidental Death Payments	164,648	155,058	155,058	167,692
Section 101 Benefits	27,641	19,673	25,453	34,221
3 (8) (c) Reimbursements to Other Systems	339,038	245,453	209,686	215,165
State Reimbursable COLA's Paid	130,768	97,883	115,049	131,854
Chapter 389 Beneficiary Increase Paid	<u>15,516</u>	<u>0</u>	<u>0</u>	<u>15,835</u>
Sub Total	<u>8,351,474</u>	<u>7,716,006</u>	<u>7,371,454</u>	<u>7,183,776</u>
Expense Fund:				
Board Member Stipend	15,000	13,000	13,500	15,000
Salaries	72,353	69,719	66,056	34,276
Legal Expenses	15,420	14,270	18,010	35,295
Medical Expenses	142	52	0	0
Travel Expenses	823	1,409	0	60
Administrative Expenses	2,338	3,343	3,941	5,330
Actuarial Services	2,115	0	0	14,875
Accounting Services	16,883	14,487	14,516	8,641
Furniture and Equipment	1,070	0	0	0
Management Fees	1,081,494	935,362	944,313	917,812
Custodial Fees	31,200	31,200	31,000	30,000
Service Contracts	17,746	16,901	16,096	15,330
Fiduciary Insurance	<u>7,469</u>	<u>7,365</u>	<u>7,148</u>	<u>6,957</u>
Sub Total	<u>1,264,053</u>	<u>1,107,108</u>	<u>1,114,581</u>	<u>1,083,576</u>
Total Disbursements	<u>\$11,973,520</u>	<u>\$10,860,710</u>	<u>\$10,291,701</u>	<u>\$10,277,326</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Investment Income Received From:				
Cash	\$5,720	\$2,560	\$2,776	\$2,506
Equities	0	0	0	1,884
Pooled or Mutual Funds	<u>5,107,826</u>	<u>4,635,766</u>	<u>3,736,784</u>	<u>4,061,580</u>
Total Investment Income	<u>5,113,546</u>	<u>4,638,326</u>	<u>3,739,560</u>	<u>4,065,971</u>
Plus:				
Realized Gains	7,521,426	23,281,378	19,864,773	6,275,803
Unrealized Gains	<u>22,184,592</u>	<u>18,893,525</u>	<u>15,694,411</u>	<u>15,594,448</u>
Sub Total	<u>29,706,018</u>	<u>42,174,903</u>	<u>35,559,184</u>	<u>21,870,251</u>
Less:				
Realized Loss	(1,204)	(392,517)	(44,853)	(34,337)
Unrealized Loss	<u>(3,329,243)</u>	<u>(30,359,479)</u>	<u>(38,524,941)</u>	<u>(15,652,569)</u>
Sub Total	<u>(3,330,447)</u>	<u>(30,751,995)</u>	<u>(38,569,795)</u>	<u>(15,686,907)</u>
Net Investment Income	<u>31,489,118</u>	<u>16,061,234</u>	<u>728,949</u>	<u>10,249,315</u>
Income Required:				
Annuity Savings Fund	37,312	37,558	36,527	33,074
Annuity Reserve Fund	267,111	238,767	220,533	207,203
Military Service Fund	32	32	35	35
Expense Fund	<u>1,264,053</u>	<u>1,107,108</u>	<u>1,114,581</u>	<u>1,083,576</u>
Total Income Required	<u>1,568,508</u>	<u>1,383,465</u>	<u>1,371,676</u>	<u>1,323,888</u>
Net Investment Income	<u>31,489,118</u>	<u>16,061,234</u>	<u>728,949</u>	<u>10,249,315</u>
Less: Total Income Required	<u>1,568,508</u>	<u>1,383,465</u>	<u>1,371,676</u>	<u>1,323,888</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$29,920,610</u>	<u>\$14,677,769</u>	<u>(\$642,726)</u>	<u>\$8,925,427</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2017		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$204,925	0.1%
Pooled Domestic Equity Funds	10,702,474	5.2%
Pooled International Equity Funds	17,986,560	8.7%
Pooled Global Equity Funds	32,229,460	15.5%
PRIT Cash Fund	9,600,000	4.6%
PRIT Core Fund	<u>136,871,949</u>	<u>65.9%</u>
Grand Total	<u>\$207,595,367</u>	<u>100.0%</u>

For the year ending December 31, 2017, the rate of return for the investments of the Leominster Retirement System was 18.08%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Leominster Retirement System averaged 11.32%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Leominster Retirement System was 8.83%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

The Leominster Retirement System has not submitted any supplementary investment regulations for approval to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

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

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$897.72 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$897.72 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (Option D)

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

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

COST OF LIVING

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership:

October 8, 2008

Call Firefighters and Reserved Police Officers are not eligible to become Members of the Leominster Contributory Retirement System.

December 14, 1984

All permanent full time employees – working 20 or more hours per week – must become members of the Retirement Board upon the effective date of their employment.

December 14, 1984

The Mayor and City Council may elect to become members of the Retirement System.

Creditable Service:

October 8, 2008

Buy Backs

The Retirement Board will allow creditable service for all creditable service that is rendered to him/her as an employee in any governmental unit after becoming a member.

Regular Compensation:

November 8, 2011

Both the Police and Fire Departments will receive compensation towards their Annuity Savings for CPR, Suicide and Breathalyzer Operator pay.

Travel Regulations:

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller 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: John J. Richard, Chairman

Appointed Member: David R. LaPlante Term Expires: 11/07/20

Elected Member: John P. Perry Term Expires: 12/31/20

Elected Member: Jonathan C. Campagna Term Expires: 01/31/22

Appointed Member: Douglas Farwell Term Expires: 07/24/22

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$94,834,273
The actuarial liability for inactive members was	1,671,070
The actuarial liability for retired members was	<u>111,774,533</u>
The total actuarial liability was	\$208,279,876
System assets as of that date were (actuarial value)	<u>207,578,771</u>
The unfunded actuarial liability was	<u>\$701,105</u>
The ratio of system's assets to total actuarial liability was	99.7%
As of that date the total covered employee payroll was	\$28,810,640

The normal cost for employees on that date was 9.3% of payroll
 The normal cost for the employer was 7.1% of payroll

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

Investment Return: 5.50% per annum
 Rate of Salary Increase: Varies by job and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2018

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2018	\$207,578,771	\$208,279,876	\$701,105	99.7%	\$28,810,640	2.4%
1/1/2017	\$175,724,624	\$194,940,308	\$19,215,684	90.1%	\$29,054,906	66.1%
1/1/2015	\$155,808,105	\$187,141,513	\$31,333,408	83.3%	\$27,401,323	114.3%
1/1/2014	\$143,848,645	\$181,568,614	\$37,719,969	79.2%	\$26,165,270	144.2%
1/1/2013	\$117,109,596	\$146,036,873	\$28,927,277	80.2%	\$24,845,717	116.4%
1/1/2011	\$101,217,515	\$128,738,214	\$27,520,699	78.6%	\$22,407,674	122.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retirement in Past Years										
Superannuation	10	13	18	8	12	19	18	18	25	35
Ordinary Disability	0	0	0	1	0	0	1	0	0	1
Accidental Disability	3	0	1	1	2	0	1	1	2	0
Total Retirements	13	13	19	10	14	19	20	19	27	36
Total Retirees, Beneficiaries and Survivors	383	372	400	388	391	390	387	393	391	425
Total Active Members	642	613	588	609	609	629	644	685	669	673
Pension Payments										
Superannuation	\$3,944,823	\$4,179,799	\$4,678,594	\$4,713,458	\$4,831,812	\$4,843,232	\$5,081,938	\$5,273,635	\$5,588,642	\$6,059,328
Survivor/Beneficiary Payments	276,431	279,189	123,217	311,050	326,377	332,918	317,305	319,049	305,978	311,720
Ordinary Disability	40,429	41,396	41,881	49,312	64,920	74,219	66,967	54,376	54,376	62,961
Accidental Disability	1,076,384	1,090,829	1,117,863	1,078,330	1,080,090	1,126,655	1,152,798	1,219,148	1,248,943	1,239,854
Other	686,678	649,883	662,728	608,017	597,135	595,671	564,768	505,246	518,067	677,611
Total Payments for Year	<u>\$6,024,745</u>	<u>\$6,241,096</u>	<u>\$6,624,283</u>	<u>\$6,760,167</u>	<u>\$6,900,334</u>	<u>\$6,972,695</u>	<u>\$7,183,776</u>	<u>\$7,371,454</u>	<u>\$7,716,006</u>	<u>\$8,351,474</u>



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