

PERAC AUDIT REPORT



Marblehead
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016



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	20
Note 5 - Actuarial Valuation and Assumptions.....	21
Note 6 - Membership Exhibit.....	22

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, *Executive Director*

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

July 24, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Marblehead Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. 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 Marblehead Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Carol Poladian and Walter Kloc who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



John W. Parsons, Esq.
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2016	2015	2014	2013
Net Assets Available For Benefits:				
Cash	\$63,894	\$44,006	\$7,467	\$14,703
PRIT Cash Fund	160,443	170,156	180,075	342,055
PRIT Core Fund	89,708,805	86,753,792	89,728,662	86,865,145
Accounts Receivable	6,214	53,424	59,401	5,244
Accounts Payable	(1,625)	(1,273)	(528)	(1,524)
Total	<u>\$89,937,731</u>	<u>\$87,020,105</u>	<u>\$89,975,077</u>	<u>\$87,225,622</u>
Fund Balances:				
Annuity Savings Fund	\$18,910,912	\$17,934,593	\$17,094,214	\$16,178,441
Annuity Reserve Fund	6,309,977	6,436,300	6,606,944	6,970,486
Pension Fund	1,229,959	1,112,874	1,041,520	963,626
Military Service Fund	9,055	9,046	9,037	3,093
Expense Fund	0	0	0	0
Pension Reserve Fund	63,477,828	61,527,292	65,223,361	63,109,975
Total	<u>\$89,937,731</u>	<u>\$87,020,105</u>	<u>\$89,975,077</u>	<u>\$87,225,622</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 2013	\$15,346,040	\$7,009,356	\$997,958	\$3,090	\$0	\$55,862,864	\$79,219,308
Receipts	2,072,216	210,035	2,897,991	3	598,342	11,019,640	16,798,228
Interfund Transfers	(992,354)	993,958	3,770,925	0	0	(3,772,529)	0
Disbursements	(247,462)	(1,242,862)	(6,703,248)	0	(598,342)	0	(8,791,914)
Ending Balance 2013	16,178,441	6,970,486	963,626	3,093	0	63,109,975	87,225,622
Receipts	2,126,313	204,358	3,011,564	5,943	608,075	6,185,435	12,141,689
Interfund Transfers	(750,793)	750,288	4,072,555	0	0	(4,072,049)	0
Disbursements	(459,747)	(1,318,187)	(7,006,225)	0	(608,075)	0	(9,392,234)
Ending Balance 2014	17,094,214	6,606,944	1,041,521	9,037	0	65,223,361	89,975,077
Receipts	2,213,741	194,613	3,204,434	9	598,541	234,881	6,446,219
Interfund Transfers	(991,628)	991,628	3,930,950	0	0	(3,930,950)	0
Disbursements	(381,734)	(1,356,885)	(7,064,031)	0	(598,541)	0	(9,401,190)
Ending Balance 2015	17,934,593	6,436,300	1,112,874	9,046	0	61,527,292	87,020,105
Receipts	2,425,854	193,259	3,443,386	9	611,853	6,001,498	12,675,859
Interfund Transfers	(1,127,482)	1,127,482	4,050,962	0	0	(4,050,962)	0
Disbursements	(322,053)	(1,447,064)	(7,377,263)	0	(611,853)	0	(9,758,233)
Ending Balance 2016	\$18,910,912	\$6,309,977	\$1,229,959	\$9,055	\$0	\$63,477,828	\$89,937,731

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	\$1,977,455	\$1,898,956	\$1,849,341	\$1,777,062
Transfers from Other Systems	380,970	217,101	160,664	139,619
Member Make Up Payments and Re-deposits	46,076	56,535	89,250	76,830
Member Payments from Rollovers	810	19,658	4,492	54,591
Investment Income Credited to Member Accounts	<u>20,543</u>	<u>21,492</u>	<u>22,566</u>	<u>24,115</u>
Sub Total	<u>2,425,854</u>	<u>2,213,741</u>	<u>2,126,313</u>	<u>2,072,216</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>193,259</u>	<u>194,613</u>	<u>204,358</u>	<u>210,035</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	114,654	115,044	114,397	106,140
Pension Fund Appropriation	90,881	91,379	110,731	122,681
Settlement of Workers' Compensation Claims	3,237,852	2,998,011	2,775,936	2,669,170
Recovery of 91A Overearnings	0	0	10,500	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,443,386</u>	<u>3,204,434</u>	<u>3,011,564</u>	<u>2,897,991</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	5,940	0
Investment Income Credited to the Military Service Fund	<u>9</u>	<u>9</u>	<u>3</u>	<u>3</u>
Sub Total	<u>9</u>	<u>9</u>	<u>5,943</u>	<u>3</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>611,853</u>	<u>598,541</u>	<u>608,075</u>	<u>598,342</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	10,037	6,802	15,079	16,007
Interest Not Refunded	139	744	534	2,059
Miscellaneous Income	0	10	0	0
Excess Investment Income	<u>5,991,322</u>	<u>227,324</u>	<u>6,169,823</u>	<u>11,001,574</u>
Sub Total	<u>6,001,498</u>	<u>234,881</u>	<u>6,185,435</u>	<u>11,019,640</u>
Total Receipts, Net	<u>\$12,675,859</u>	<u>\$6,446,219</u>	<u>\$12,141,689</u>	<u>\$16,798,228</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	\$112,535	\$103,295	\$176,099	\$120,056
Transfers to Other Systems	<u>209,518</u>	<u>278,438</u>	<u>283,648</u>	<u>127,406</u>
Sub Total	<u>322,053</u>	<u>381,734</u>	<u>459,747</u>	<u>247,462</u>
Annuity Reserve Fund:				
Annuities Paid	1,447,064	1,356,885	1,315,301	1,242,862
Option B Refunds	<u>0</u>	<u>0</u>	<u>2,886</u>	<u>0</u>
Sub Total	<u>1,447,064</u>	<u>1,356,885</u>	<u>1,318,187</u>	<u>1,242,862</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	5,904,624	5,606,195	5,498,726	5,370,040
Survivorship Payments	379,058	389,531	354,006	317,378
Ordinary Disability Payments	41,073	40,353	39,633	38,305
Accidental Disability Payments	601,089	593,467	651,388	534,071
Accidental Death Payments	206,824	205,222	245,170	222,415
Section 101 Benefits	37,224	37,103	19,185	17,693
3 (8) (c) Reimbursements to Other Systems	116,922	95,649	88,708	81,185
State Reimbursable COLA's Paid	70,154	75,785	88,682	101,434
Chapter 389 Beneficiary Increase Paid	<u>20,294</u>	<u>20,726</u>	<u>20,726</u>	<u>20,726</u>
Sub Total	<u>7,377,263</u>	<u>7,064,031</u>	<u>7,006,225</u>	<u>6,703,248</u>
Expense Fund:				
Board Member Stipend	1,500	1,500	1,500	1,500
Salaries	67,812	88,378	76,518	77,588
Benefit Expenses	20,800	20,325	19,480	15,976
Legal Expenses	20,376	2,310	9,477	11,949
Administrative Expenses	4,451	4,217	4,650	6,411
Management Fees	471,002	457,029	472,736	462,332
Service Contracts	20,400	19,430	18,506	17,625
Fiduciary Insurance	<u>5,512</u>	<u>5,350</u>	<u>5,208</u>	<u>4,963</u>
Sub Total	<u>611,853</u>	<u>598,541</u>	<u>608,075</u>	<u>598,342</u>
Total Disbursements	<u>\$9,758,233</u>	<u>\$9,401,190</u>	<u>\$9,392,234</u>	<u>\$8,791,914</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Investment Income Received From:				
Cash	\$684	\$738	\$552	\$1,662
Pooled or Mutual Funds	<u>2,529,324</u>	<u>2,326,662</u>	<u>2,526,164</u>	<u>2,416,278</u>
Total Investment Income	<u>2,530,008</u>	<u>2,327,400</u>	<u>2,526,715</u>	<u>2,417,940</u>
Plus:				
Realized Gains	2,491,869	3,212,256	4,004,556	3,877,673
Unrealized Gains	<u>7,593,759</u>	<u>1,755,961</u>	<u>5,788,211</u>	<u>10,004,134</u>
Sub Total	<u>10,085,628</u>	<u>4,968,217</u>	<u>9,792,767</u>	<u>13,881,807</u>
Less:				
Realized Loss	(49,367)	0	0	0
Unrealized Loss	<u>(5,749,284)</u>	<u>(6,253,639)</u>	<u>(5,314,657)</u>	<u>(4,465,678)</u>
Sub Total	<u>(5,798,650)</u>	<u>(6,253,639)</u>	<u>(5,314,657)</u>	<u>(4,465,678)</u>
Net Investment Income	<u>6,816,985</u>	<u>1,041,979</u>	<u>7,004,825</u>	<u>11,834,069</u>
Income Required:				
Annuity Savings Fund	20,543	21,492	22,566	24,115
Annuity Reserve Fund	193,259	194,613	204,358	210,035
Military Service Fund	9	9	3	3
Expense Fund	<u>611,853</u>	<u>598,541</u>	<u>608,075</u>	<u>598,342</u>
Total Income Required	<u>825,663</u>	<u>814,655</u>	<u>835,002</u>	<u>832,495</u>
Net Investment Income	<u>6,816,985</u>	<u>1,041,979</u>	<u>7,004,825</u>	<u>11,834,069</u>
Less: Total Income Required	<u>825,663</u>	<u>814,655</u>	<u>835,002</u>	<u>832,495</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$5,991,322</u>	<u>\$227,324</u>	<u>\$6,169,823</u>	<u>\$11,001,574</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$14,703	0.0%
PRIT Cash Fund	342,055	0.4%
PRIT Core Fund	<u>86,865,145</u>	<u>99.6%</u>
Grand Total	<u>\$87,221,903</u>	<u>100.0%</u>

For the year ending December 31, 2016, the rate of return for the investments of the Marblehead Retirement System was 8.09%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Marblehead Retirement System averaged 9.22%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Marblehead Retirement System was 9.14%.

The composite rate of return for all retirement systems for the year ending December 31, 2016 was 8.08%. For the five-year period ending December 31, 2016, the composite rate of return for the investments of all retirement systems averaged 9.12%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Marblehead Retirement System voted to invest all of the system's assets with the PRIT fund. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

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

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$871.56 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 \$871.56 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board 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 Marblehead Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

March 3, 2011

Creditable Service

For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Marblehead Contributory Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Marblehead Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member who has rendered membership service in the Marblehead Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 37.5 hours per week, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the Marblehead Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 37.5 hours per week with said service not to exceed one (1) year of creditable service in any calendar year.

Any member purchasing non-membership part-time service rendered shall have said service prorated based on 37.5 hours per week being considered a full-week of service. Notwithstanding the foregoing, any member who works part-time his/her entire career shall have said service prorated based on the weekly hours worked as a part-time employee, with said service not to exceed one (1) year of creditable service in any calendar year.

Any member who transfers out of the Marblehead Contributory Retirement System to another Massachusetts Contributory Retirement System, shall have all service rendered prorated based on the full-time equivalency of 37.5 hours per week with said service not to exceed (1) year of creditable service in any calendar year.

February 14, 2012

Membership

Any individual who is permanently employed twenty (20) or more hours per week by the Town of Marblehead or any of its departments or by any member unit of the Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

shall become a member of the Marblehead Retirement System (“System”) effective April 2, 2012. In addition to the foregoing, an individual or elected official must earn at least \$5,000 per year in regular compensation to be eligible for membership in the System.

November 10, 2010

Permanent employees employed in a less than full-time capacity, will be required to become members of the System if they are scheduled to be employed a minimum of 1,560 hours annually. Permanent part-time employees who satisfy the Board’s membership criteria will be enrolled from the date of inception. Individuals, who are not eligible for membership in the System, will be required to enroll in an alternative retirement plan offered by the Town of Marblehead.

March 26, 2001

Service Liability

The Marblehead Retirement Board will not accept any liability pursuant to the M.G.L. c. 32, § 3(8)(c) for any service that is rendered in the Town of Marblehead, which did not entitle the employee to membership in the Marblehead Retirement System, unless the employee subsequently becomes a member of the Marblehead Retirement System and purchases said service while employed in the Town of Marblehead.

August 30, 2000

Miscellaneous

Recovery of Earnings in Excess of the Statutory Limitations Set Forth in M.G.L. c. 32, § 91A: If a disability retiree of the Marblehead Retirement System whose earnings exceed the limitations set forth in M.G.L. c. 32, § 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the member’s financial needs, not to exceed six months. If the disability retiree elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the member’s monthly retirement allowance.

Travel Regulations

The Marblehead 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/service-details/marblehead-retirement-board-travel-regulations>.

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 Finance Director 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:	Alison Nieto	
Appointed Member:	Charles Gessner	Term Expires: 5/1/ 2022
Elected Member:	Paul Jalbert	Term Expires: 8/8/2020
Elected Member:	Jason Gilliland	Term Expires: 2/24/2021
Appointed Member:	Robert Peck Jr., Chairman	Term Expires: 7/27/2019

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 the Public Employee Retirement Administration Commission as of January 1, 2018.

The actuarial liability for active members was	\$56,792,829
The actuarial liability for inactive members was	3,052,092
The actuarial liability for retired members was	<u>88,690,992</u>
The total actuarial liability was	\$148,535,913
System assets as of that date were (actuarial value)	<u>96,181,619</u>
The unfunded actuarial liability was	<u><u>\$52,354,294</u></u>
The ratio of system's assets to total actuarial liability was	64.8%
As of that date the total covered employee payroll was	\$21,324,819

The normal cost for employees on that date was 8.90% of payroll
 The normal cost for employers, including administrative expenses was 8.22% of payroll

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

Investment Return: 7.35% per annum
 Rate of Salary Increase: varies by group 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	\$96,181,619	\$148,535,913	\$52,354,294	64.8%	\$21,324,819	245.5%
1/1/2016	\$88,309,295	\$134,203,533	\$45,894,238	65.8%	\$20,286,731	226.2%
1/1/2014	\$81,979,599	\$122,307,600	\$40,328,001	67.0%	\$18,842,144	214.0%
1/1/2012	\$79,866,225	\$108,293,125	\$28,426,900	73.8%	\$16,564,039	171.6%
1/1/2010	\$77,353,879	\$98,858,864	\$21,504,985	78.2%	\$15,492,864	138.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	20	12	12	13	12	21	12	12	13	12
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	1	0	1	0	0	1	2	0	0
Total Retirements	21	13	12	14	12	21	13	14	13	12
 Total Retirees, Beneficiaries and Survivors	324	322	326	333	332	337	342	344	346	348
 Total Active Members	361	354	352	345	342	434	438	450	448	442
Pension Payments										
Superannuation	\$3,650,229	\$3,829,040	\$4,068,209	\$4,348,179	\$4,661,593	\$5,049,366	\$5,606,195	\$5,498,726	\$5,606,195	\$5,904,624
Survivor/Beneficiary Payments	241,629	256,466	263,321	297,677	306,889	322,330	389,531	354,006	389,531	379,058
Ordinary Disability	106,544	83,347	71,563	67,989	61,622	39,871	40,353	39,633	40,353	41,073
Accidental Disability	587,726	581,939	571,975	579,709	540,168	541,616	593,467	651,388	593,467	601,089
Other	452,635	469,504	475,879	527,266	525,797	455,558	434,486	462,471	434,486	451,418
Total Payments for Year	<u>\$5,038,763</u>	<u>\$5,220,296</u>	<u>\$5,450,947</u>	<u>\$5,820,820</u>	<u>\$6,096,069</u>	<u>\$6,408,741</u>	<u>\$7,064,031</u>	<u>\$7,006,225</u>	<u>\$7,064,031</u>	<u>\$7,377,263</u>

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