MASSACHUSETTS TEACHERS CONTRIBUTORY RETIREMENT SYSTEM

AUDIT REPORT
JULY 1, 2017 - JUNE 30, 2021



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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESO., Chair

WILLIAM T. KEEFE, Executive Director

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

April 29, 2025

The Public Employee Retirement Administration Commission (PERAC) has completed an examination of certain activities of the Massachusetts Teachers' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from July 1, 2017 to June 30, 2021. 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 and that first benefit checks were paid timely, 7) that required member documentation is maintained, 8) that appropriations certified by PERAC have been paid to the retirement system, 9) that refunds issued by the system were correctly calculated, and 10) that transfers out to other boards were completed correctly.

To achieve these objectives, we inspected certain records of the Massachusetts Teachers' Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash and investment balances, and 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 calculated the number of days between retirement date and the first benefit check of a sample of retirements during the audit period. We also reviewed a sample of member files for accuracy and completeness. We reviewed appropriations received and compared to PERAC appropriation letters for the fiscal years during the audit period. We tested a sample of refunds issued during the audit period and recalculated the interest portion of the refunds tested. We also tested a sample of transfers out to other boards during the audit period and determined that member accounts and creditable service were sent to the other boards. We calculated the number of days to payment of a sample of refunds and transfers out during the audit period.





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In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception noted in the finding 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,

William T. Keefe Executive Director

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EXPLANATION OF FINDING AND RECOMMENDATION

Late Transfers Out to Other Boards:

We tested 50 transfers out to other boards during the audit period and found about 44% were sent out within the §3(8)(a) requirement of 90 days after the request. Our analysis found a varying rate of compliance from a high of 69% sent out under 90 days in Fiscal Year (FY) 2018 to a low of 8% sent out under 90 days in FY2019. The average number of days for the audit period was 165 with the lowest annual average coming in FY2021 at 113 days.

Recommendation: The Board should review operations to improve the processing time of disbursements to other boards in order to comply with Chapter 32.

Board Response:

The MTRS acknowledges the validity of this finding. However, we are unique in that 418 different employer units report retirement deductions on behalf of our members, all of which are in various states of compliance regarding their monthly reporting obligations, which adds additional complexities to many of our processes, including transfers out.

In FY2025, we identified and implemented changes to improve the transfer out processing time with the goal of complying with the 90 days specified in §3(8)(a). Additionally, we have utilized technology to manage and track this process more efficiently to help us identify cases that are ready to be transferred out.

One area that is beyond our control is when a member's account is missing contributions due to late-filed employer deduction reports. This typically accounts for approximately 80% of our transfer out request delays.

To encourage full compliance by employers, the MTRS filed House Bill 31 on January 2, 2025, an Act relative to reducing delinquent pension reporting. If passed, the act would provide pension boards with legal authority to invoke a noncompliance penalty of \$100 per day after a written notice and 30 days of an unreasonable delay in filing employer deduction reports.

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 JUNE 30,					
	2021	2020	2019	2018		
Net Assets Available For Benefits:						
Cash	\$91,445,639	\$88,085,971	\$87,771,239	\$109,801,216		
PRIT Cash Fund	63,552,048	35,120,998	46,828,674	29,048,393		
PRIT Core Fund	36,859,684,069	29,113,491,964	29,318,664,851	28,559,010,612		
Intangible Software Costs	0	444,422	2,628,886	4,200,112		
Prepaid Expenses	343,814	377,774	480,259	313,789		
Accounts Receivable	97,703,915	105,244,914	98,942,893	110,949,244		
Deferred Revenue	(1,636,951)	(1,601,713)	(1,715,963)	(3,025,514)		
Accounts Payable	(22,968,949)	(23,168,544)	(16,621,786)	(18,587,117)		
Total	<u>\$37,088,123,585</u>	<u>\$29,317,995,786</u>	<u>\$29,536,979,053</u>	<u>\$28,791,710,735</u>		
Fund Balances:						
Annuity Savings Fund	\$9,262,023,526	\$8,820,631,103	\$8,384,602,651	\$7,956,803,663		
Annuity Reserve Fund	1,481,185,801	1,715,842,892	1,909,423,209	2,102,435,201		
Pension Fund	0	0	0	0		
Military Service Fund	332,498	314,119	281,986	246,476		
Expense Fund	0	0	0	0		
Pension Reserve Fund	26,344,581,760	18,781,207,672	19,242,671,207	18,732,225,395		
Total	\$37,088,123,585	\$ <u>29,317,995,786</u>	\$ <u>29,536,979,053</u>	\$ <u>28,791,710,735</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 FY2018	\$7,552,916,713	\$2,255,262,992	\$0	\$230,034	\$0	\$17,330,198,882	\$27,138,608,621
Receipts	803,955,503	68,394,812	1,483,498,330	21,657	214,398,786	2,421,107,752	4,991,376,840
Interfund Transfers	(350,373,195)	350,378,410	1,019,081,239	(5,215)	0	(1,019,081,239)	0
Disbursements	(<u>49,695,358</u>)	(<u>571,601,013</u>)	(<u>2,502,579,569</u>)	<u>0</u>	(<u>214,398,786</u>)	<u>0</u>	(3,338,274,726)
Ending Balance FY2018	7,956,803,663	2,102,435,201	0	246,476	0	18,732,225,395	28,791,710,735
Receipts	827,195,078	63,217,073	1,612,638,259	41,336	212,097,047	1,477,685,509	4,192,874,302
Interfund Transfers	(339,967,652)	339,973,478	967,239,697	(5,826)	0	(967,239,697)	0
Disbursements	(<u>59,428,438</u>)	(596,202,543)	(2,579,877,956)	<u>0</u>	(212,097,047)	<u>0</u>	(3,447,605,984)
Ending Balance FY2019	8,384,602,651	1,909,423,209	0	281,986	0	19,242,671,207	29,536,979,053
Receipts	859,111,451	63,626,491	1,754,184,634	34,949	210,498,195	450,913,063	3,338,368,783
Interfund Transfers	(366,515,329)	366,529,572	912,365,171	(2,816)	0	(912,376,598)	0
Disbursements	(<u>56,567,670</u>)	(623,736,380)	(2,666,549,805)	<u>0</u>	(<u>210,498,195</u>)	<u>0</u>	(3,557,352,050)
Ending Balance FY2020	8,820,631,103	1,715,842,892	0	314,119	0	18,781,207,672	29,317,995,786
Receipts	867,891,022	51,663,885	1,937,940,767	9,037	241,455,942	8,355,090,702	11,454,051,355
Interfund Transfers	(370,702,972)	365,008,441	797,401,802	9,342	0	(791,716,614)	(0)
Disbursements	(55,795,627)	(651,329,417)	(2,735,342,569)	<u>0</u>	(241,455,942)	<u>0</u>	(3,683,923,556)
Ending Balance FY2021	\$ <u>9,262,023,526</u>	\$ <u>1,481,185,801</u>	(<u>\$0</u>)	\$ <u>332,498</u>	(<u>\$0</u>)	\$26,344,581,760	\$ <u>37,088,123,585</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING JUNE 30,					
	2021	2020	2019	2018		
Annuity Savings Fund:						
Members Deductions	\$833,235,543	\$821,105,208	\$782,430,840	\$755,687,921		
Transfers from Other Systems	8,763,684	15,045,878	22,849,883	23,258,512		
Member Make Up Payments and Re-deposits	9,087,938	7,411,484	6,592,003	8,899,092		
Member Payments from Rollovers	8,409,931	7,587,555	7,765,220	8,957,304		
Investment Income Credited to Member Accounts	8,393,926	7,961,326	7,557,132	7,152,674		
Sub Total	867,891,022	859,111,451	827,195,078	803,955,503		
Annuity Reserve Fund:						
Investment Income Credited to the Annuity Reserve						
Fund	51,663,885	63,626,491	63,217,073	68,394,812		
Pension Fund:		, _				
3 (8) (c) Reimbursements from Other Systems	57,751,633	39,146,354	46,340,895	48,274,990		
Received from Commonwealth for COLA and	01,101,000	00,110,001	10,010,000	10,211,000		
Survivor Benefits	301,972,317	287,841,752	272,588,330	257,216,400		
Pension Fund Appropriation	1,578,153,565	1,427,131,519	1,293,639,733	1,177,979,267		
Settlement of Workers' Compensation Claims	63,252	45,750	56,725	23,000		
Recovery of 91A Overearnings	<u>0</u>	<u>19,259</u>	<u>12,576</u>	<u>4,673</u>		
Sub Total	1,937,940,767	1,754,184,634	1,612,638,259	1,483,498,330		
Military Service Fund:						
Contribution Received from Municipality on Account						
of Military Service	8,705	34,642	41,052	21,411		
Investment Income Credited to the Military Service						
Fund	<u>332</u>	<u>307</u>	<u>284</u>	<u>246</u>		
Sub Total	9,037	34,949	41,336	21,657		
Expense Fund:				' <u></u>		
Investment Income Credited to the Expense Fund	241,455,942	210,498,195	212,097,047	214,398,786		
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Pension Reserve Fund:						
Federal Grant Reimbursement	3,161,685	2,389,730	3,386,210	3,140,623		
Interest Not Refunded	110,544	339,268	275,605	174,456		
Miscellaneous Income	35	413	41,349	3,655,974		
Capital Gains Revenue	36,013,894	0	24,927,475	15,084,898		
Excess Investment Income	8,315,804,544	448,183,652	<u>1,449,054,871</u>	2,399,051,801		
Sub Total	8,355,090,702	450,913,063	<u>1,477,685,509</u>	2,421,107,752		
Total Receipts, Net	\$11,454,051,355	\$3,338,368,783	\$4,192,874,302	\$4,991,376,840		

STATEMENT OF DISBURSEMENTS

			D ENDING JUNE 30	•
	2021	2020	2019	2018
Annuity Savings Fund:				
Refunds to Members	\$35,402,501	\$37,515,801	\$40,947,148	\$39,002,238
Section 11 Active Death Refunds	\$2,522,719	\$1,355,949	\$1,966,161	\$1,700,456
Transfers to Other Systems	17,870,407	17,695,920	16,515,129	8,992,664
Sub Total	55,795,627	56,567,670	59,428,438	49,695,358
Annuity Reserve Fund:				
Annuities Paid	649,169,765	622,438,031	595,059,127	569,908,816
Option B Refunds	2,159,652	1,298,349	1,143,416	1,692,197
Sub Total	651,329,417	623,736,380	596,202,543	571,601,013
Pension Fund:				
Pensions Paid	2,264,728,862	2,214,421,780	2,159,474,903	2,109,583,387
3 (8) (c) Reimbursements to Other Systems	5,664,121	7,245,213	4,669,160	4,481,619
Boston Teachers' payment	162,976,424	157,040,605	143,145,563	131,297,926
State Reimbursable COLA's Paid	301,972,317	287,841,752	272,588,330	257,216,400
QEBA	845	455	0	237
Sub Total	2,735,342,569	2,666,549,805	2,579,877,956	2,502,579,569
Expense Fund:				
Salaries	9,986,359	9,518,077	8,899,549	8,905,383
Legal Expenses	10,086	94,413	61,788	57,891
3(8)(c) Receipts to General Fund	57,751,633	39,146,354	46,340,895	48,274,990
Travel Expenses	806	19,376	31,065	36,215
Administrative Expenses	461.603	603.174	524.945	396.072
Professional Services	42,516	183,947	224,591	126,235
Federal Grant Receipts Distributed	3,161,685	2,389,730	3,386,210	3,140,623
Education and Training	6,778	28,421	20,841	40,565
Furniture and Equipment	169.828	337,431	105,889	126,851
Management Fees	161,921,837	148,960,913	147,432,062	146,595,593
Rent Expenses	1,003,355	968,302	961,409	910,814
Service Contracts	6,411,756	5,982,252	2,466,435	2,556,745
Fiduciary Insurance	83,278	81,341	70,141	45,127
Depreciation	444,422	2,184,464	1,571,227	3,185,681
Sub Total	241,455,942	210,498,195	212,097,047	214,398,786
Total Disbursements	\$3,683,923,556	\$3,557,352,050	\$3,447,605,984	\$3,338,274,726

INVESTMENT INCOME

	FOR THE PERIOD ENDING JUNE 30,				
	2021	2020	2019	2018	
Investment Income Received From:					
Cash	\$136,969	\$657,042	\$1,025,576	\$761,820	
Pooled or Mutual Funds	779,936,280	702,425,696	772,796,747	765,283,219	
Total Investment Income	780,073,249	703,082,738	773,822,323	766,045,039	
Plus:					
Realized Gains	2,515,036,240	1,092,447,978	1,212,016,274	1,516,584,099	
Unrealized Gains	5,915,825,815	2,798,437,242	2,959,637,143	1,767,102,926	
Sub Total	8,430,862,054	3,890,885,220	4,171,653,417	3,283,687,025	
Less:					
Realized Loss	0	(200,672,573)	0	0	
Unrealized Loss	(593,616,673)	(3,663,025,414)	(3,213,549,333)	(1,360,733,745)	
Sub Total	(<u>593,616,673</u>)	(<u>3,863,697,987</u>)	(3,213,549,333)	(<u>1,360,733,745</u>)	
Net Investment Income	8,617,318,630	730,269,971	1,731,926,407	2,688,998,319	
Income Required:					
Annuity Savings Fund	8,393,926	7,961,326	7,557,132	7,152,674	
Annuity Reserve Fund	51,663,885	63,626,491	63,217,073	68,394,812	
Military Service Fund	332	307	284	246	
Expense Fund	241,455,942	210,498,195	212,097,047	214,398,786	
Total Income Required	301,514,085	282,086,319	282,871,536	289,946,518	
Net Investment Income	8,617,318,630	730,269,971	1,731,926,407	2,688,998,319	
Less: Total Income Required	301,514,085	282,086,319	282,871,536	289,946,518	
Excess Income (Loss) To The Pension					
Reserve Fund	\$8,315,804,545	\$ <u>448,183,652</u>	\$ <u>1,449,054,871</u>	\$2,399,051,801	

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

		AS OF JUNE 30, 2021				
		PERCENTAGE				
		OF TOTAL				
		MARKET VALUE ASSETS				
Cash		\$91,445,639	0.2%			
PRIT Cash Fund		63,552,048	0.2%			
PRIT Core Fund		<u>36,859,684,069</u>	<u>99.6</u> %			
	Grand Total	<u>\$37,014,681,756</u>	<u>100.0</u> %			

For the calendar year ending December 31, 2020, the rate of return for the investments of the Massachusetts Teachers' Retirement System was 12.78%. For the ten-year period ending December 31, 2020, the rate of return for the investments of the Massachusetts Teachers' Retirement System averaged 9.04%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Massachusetts Teachers' Retirement System was 9.56%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the ten-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 8.93%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.31%.

SUMMARY OF PLAN PROVISIONS

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. The Massachusetts Teachers' Retirement Board administers the pensions of school department employees who serve in a teaching, administrative, or other capacity deemed eligible by the Board.

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.

There are 4 classes of membership in the Commonwealth. Members of the Massachusetts Teachers' Retirement System are classified in Group 1.

Group 1:

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

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

7/1/01 to present: 11% of regular compensation (for members hired after 7/1/01 and

those accepting provisions of Chapter 114 of the Acts of 2000)

1979 to present: an additional 2% of regular compensation in excess of \$30,000,

except members subject to Chapter 114 of the Acts of 2000.

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

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
- attainment of age 55 with 10 years of service, if hired after 1977.

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

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. A .1% reduction is applied for each year of age under 65.
- 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. A .15% reduction is applied for each year of age under 67.
- 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. A .125% reduction is applied for each year of age under 67.

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 73.

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".

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.

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 \$980.88 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 \$980.88 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.

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. 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 \$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

A cost of living adjustment is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0% on the first \$13,000 of a retiree's benefit.

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.

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.

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

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

<u>Investments</u> 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. <u>Realized gain or loss</u> is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. <u>Dividend</u> income is generally recorded when received. <u>Interest</u> 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 <u>unrealized gains and losses</u> 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 <u>administrative expenses</u> of the system.

The <u>Annuity Savings Fund</u> 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 <u>Annuity Reserve Fund</u> 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 <u>Special Military Service Credit Fund</u> 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 <u>Expense Fund</u> contains amounts transferred from investment income for the purposes of administering the retirement system.

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

The <u>Pension Reserve Fund</u> 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 <u>Investment Income Account</u> 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.

ADMINISTRATION OF THE SYSTEM

The System is administered by a seven-person Board of Retirement consisting of the Commissioner of Education or his designee who shall be a member ex-officio, a second member appointed by the Governor who shall be a retired teacher, a third and fourth member who shall be elected by the members in or retired from the service of such system, the State Treasurer and the State Auditor or the designee of each, and a seventh member appointed by the other six board members.

Ex-officio Member: Iraida J. Alvarez, Esq., Chairperson

Governor Appointee: Anne Wass Serves until successor is appointed

Elected Member: Dennis J. Naughton Term Expires: 12/31/2027

Elected Member: Jacqueline A. Gorrie Term Expires: 12/31/2027

Treasurer Designee: Alison Eggers Serves until successor is named

Auditor Designee: Michael K. Leung Tat Serves until successor is named

Appointed Member: Richard L. Liston Term Expires: 01/31/2028

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 PRIM Board. All retirement allowances must be approved by the Retirement Board. The Board has a waiver for superannuation calculations. The annual budget for expenses estimated to be incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by a designee of 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 \$500,000 subject to deductibles and sublimits issued through Global Indemnity Insurance. The system also has Fiduciary coverage to a limit of \$1,000,000 issued through Hudson Insurance Company.

BOARD REGULATIONS

The Massachusetts Teachers' Retirement Board has adopted Regulations which are available on the PERAC website at https://www.mass.gov/mass-teachers-retirement-board-regulations

MEMBERSHIP EXHIBIT

	2012	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Retirement in Past Years									
Superannuation	2,655	2,770	2,955	2,653	2,570	2,558	2,413	2,536	2,521
Ordinary Disability	13	14	16	16	14	17	12	14	15
Accidental Disability	3	13	10	10	4	10	8	8	12
Total Retirements	2,671	2,797	2,981	2,679	2,588	2,585	2,433	2,558	2,548
Total Retirees, Beneficiaries									
and Survivors	59,628	61,097	62,873	64,386	65,547	66,661	67,675	68,528	69,615
Total Active Members	88,634	85,181	88,814	91,500	90,897	91,261	92,581	93,156	95,059
Pension Payments									
Superannuation	\$1,731,941,224	\$1,872,862,280	\$1,927,622,454	\$1,993,194,286	\$2,054,788,066	\$2,109,583,387	\$2,159,474,903	\$2,214,421,780	\$2,264,728,86
Other	264,775,783	296,111,813	322,205,382	349,890,387	378,243,226	392,996,182	420,403,053	452,128,025	470,613,70
Total Payments for Year	\$ <u>1,996,717,007</u>	\$ <u>2,168,974,093</u>	\$ <u>2,249,827,836</u>	\$ <u>2,343,084,673</u>	\$ <u>2,433,031,292</u>	\$ <u>2,502,579,569</u>	\$ <u>2,579,877,956</u>	\$ <u>2,666,549,805</u>	\$ <u>2,735,342,56</u>

Numbers are calendar year in 2012; changed to fiscal years in FY2014.

LEASED PREMISES

The Massachusetts Teachers' Retirement Board leases approximately 19,000 square feet of space for its offices located at Suite 210, 500 Rutherford Avenue, Boston, MA. They signed an initial 10-year lease term which will expire August 26, 2026. The landlord is Hood Park LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of June 30, 2021:

For the fiscal year ending:	<u>Annual Rent</u>
2022	\$916,786
2023	963,482
2024	978,090
2025	1,025,481
2026	1,040,392
2027 (through August 26, 2026)	<u>156,797</u>

Total future minimum lease payments required \$5,081,028

The Board leases approximately 2,700 square feet of space for its offices located at 1414 Main Street, Springfield, MA. The most recent extension will expire November 30, 2025. The landlord is Picknelly Family Limited Partnership. The Board is still in the process of finding a new building for their Springfield office.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of June 30, 2021:

For the fiscal year ending:	Annual Rent
2022	\$57,343
2023	57,343
2024	57,343
2025	57,343
2026 (through November 30, 2025)	<u>23,893</u>
Total future minimum lease payments required	\$253,265

INFORMATION TECHNOLOGY ACQUISITION AND DEVELOPMENT COSTS

The Massachusetts Teachers' Retirement Board has made a significant investment in new technology to improve service to its members and retirees. The Board approved this technology initiative in 2008. All costs have been fully depreciated.

Capitalized costs consisted of the following components as of June 30, 2021:

						Remaining
			Amortization			
Asset Classification	Acc	quisition Cost	С	epreciation	Net Value	Period
Infrastructure	\$	936,319	\$	936,319	\$ -	N/A
Hardware		163,171		163,171	-	N/A
Software		27,582,698		27,582,698	-	N/A
Total	\$	28,682,188	\$	28,682,188	\$ -	

