

**MELROSE**  
**CONTRIBUTORY RETIREMENT SYSTEM**  
**AUDIT REPORT**  
**JANUARY 1, 2014 - DECEMBER 31, 2017**



**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION**  
**COMMONWEALTH OF MASSACHUSETTS**

# TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations.....	2
Board's Annual Statements (as submitted):	
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances .....	6
Statement of Receipts.....	7
Statement of Disbursements.....	8
Investment Income .....	9
Supplementary Information:	
Schedule of Allocation of Investments Owned.....	10
Summary of Plan Provisions.....	11
Significant Accounting Policies .....	18
Administration of the System.....	20
Board Regulations.....	20
Actuarial Valuation and Assumptions.....	21
Membership Exhibit.....	22

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

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

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | RICHARD MacKINNON, Jr. | JENNIFER F. SULLIVAN

November 3, 2022

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Melrose Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2014 to December 31, 2017. 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 contracts were procured in compliance with the provisions of Section 23B of Chapter 32, and fees paid were in accordance with the executed contract, 5) that travel expenses were properly documented and accounted for, 6) that retirement contributions are accurately deducted, 7) that retirement allowances were correctly calculated, and 8) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Melrose 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 reviewed procurement files for contracts awarded and confirmed that all required documents were maintained. We also calculated the fees due per the contract and compared these amounts to the fees invoiced. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We reviewed a sample of member files for accuracy and completeness.

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

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

Sincerely,



John W. Parsons, Esq.  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Indirect Administrative Costs:**

During the audit period the City of Melrose (City) charged the Melrose Retirement Board (MRB) a portion of the City's administrative costs for services rendered to MRB. These charges included rent and a percentage of salaries for the following employees: City Solicitor, Assistant City Solicitor, Human Resources Director, Human Resources Manager and the Assistant Treasurer/Collector. The total amount paid to the City for these indirect administrative costs during the audit period was \$187,240. The services of these employees to the MRS were not properly specified and documented.

The practice of paying an amount for the Assistant Treasurer/Collector was ended after it was pointed out by PERAC that G.L. c. 32, Section 20(4)(g) limits the compensation that can be paid to the treasurer.

In a PERAC letter to the MRB dated 9/6/16, regarding payments for the City Solicitor and Assistant City Solicitor, PERAC wrote "...In our June 24, 2016 letter we also raised concerns relative to the costs being assessed for the City and Assistant City Solicitor. . . PERAC remains concerned that the statute does not authorize the MRS to pay these expenses. We acknowledge that unlike the provision relative to the City Treasurer, s. 20(4)(f) does not contain a statutory amount. However, given the statutory language as discussed above, we recommend that MRS discuss whether they should continue to pay this portion of the expenses being charged." In our reading of the minutes, we did note that discussions were recorded and most ended with the Chair stating that these costs are mandated and that PERAC says they are allowable. We don't agree that in the above quoted paragraph that it says that these payments are allowable, on the contrary, we state that we are concerned that these payments are not authorized in the statute. Additionally, the City does not provide a detailed invoice of how the amount was calculated or a description of the services provided.

In the June 2020 Board minutes, the Board was informed by the Director that the City Solicitor or Assistant City Solicitor had not been used by the Board at all in the last year, but they continued to pay these costs. If the Board is not receiving services, they should not be paying these expenses.

During the audit period the Board paid the City \$45,626 for the City Solicitor and \$10,070 for the Assistant to the City Solicitor, they also paid a total of \$38,142 in legal fees to outside attorneys.

Regarding the remaining costs, (HR Director 5% of salary and HR Manager 25% of salary) PERAC said they were allowable if the ". . .services are properly specified, documented, and invoiced." The invoices that were sent from the city included only a lump sum amount with a description of 'Administrative Expenses HR Department' and the quarter it covered. We did not see an explanation as to how this amount was calculated or a description of the services provided. Frankly, it strains credulity that an HR employee is spending 25% of their time on retirement issues.

PERAC also stated ". . .it is essential that the process of the MRS paying expenses to the City be the collective decision of the MRS. Given the Chairman's dual role as Chair of the MRS and CFO/City Auditor of Melrose, we recommended that MRS as a body address on an annual basis the decision to reimburse the City as part of the budget process, although as a separate matter." In the 2017 and

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

2018 budget review, the Board minutes did not contain any notes that the board discussed the payments to the City as a separate matter.

The Board pays a quarterly rent to the City of Melrose in the amount of \$2,515. The Board does not have a lease/rent agreement with the City of Melrose.

**Recommendation:** The Board should discuss and vote each year as to whether these payments to the City are appropriate. If the Board chooses to continue to pay the City, they should not do so without a detailed invoice of the services provided. In addition, the Board should review the rent payments to the City of Melrose as well as the cost basis used for the assessment.

**Board Response:**

The Board voted to discontinue the indirect cost charges to the City of Melrose for the HR Director, HR Manager, City Solicitor, and the Assistant City Solicitor. The Board reviewed the rent payments to the City and had a cost basis assessment done and voted to have a lease agreement written up by our legal counsel.

**2. Investments/Service Contracts:**

Requests for Proposals (RFPs) issued since the passage of Chapter 32, §23B have not followed all the requirements of that section. Separate procurement files were not kept, and the screening and ranking of the responses for legal services was not performed by all the Board members. Instead, the evaluation was completed by the Board Chair, Executive Director, and Assistant City Solicitor.

We were unable to determine if all Board members participated in the evaluation process of the RFP for actuarial services since the contract file was not provided.

**Recommendation:** The Board should keep separate procurement files for all RFPs. All Board members are required to review, screen, and tabulate their rankings of all proposals received.

**Board Response:**

The Board voted that the full Board will be included in reviewing, screening and tabulating the rankings of all proposals received and will keep separate procurement files for all RFP's.

**3. Debit Cards:** We found that the Board is using a debit card for travel, food, and supply purchases. There is no Board regulation about a debit card; however, there is a regulation about a Board credit card. This regulation limits use of the credit card to travel-related purposes only. The Board's own policy states that the usage of credit cards must be consistent with the provisions of 840 CMR 2.11.

We also noted for some of the debit card purchases there were no receipts provided and the debit card itself was not stored securely.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

**Recommendation:** The Board should be applying the credit card regulation's usage limitation to the debit card. The card should be kept in a secure location. All debit card purchases should be supported by receipts or any other appropriate support documentation.

***Board Response:***

The Board voted to discontinue the use of the debit card.

**FINAL DETERMINATION:**

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

# ANNUAL STATEMENTS (as submitted)

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2017	2016	2015	2014
<b>Net Assets Available For Benefits:</b>				
Cash	\$3,994,106	\$4,042,127	\$3,671,344	\$1,969,182
Pooled Alternative Investment Funds	284,219	431,099	747,215	1,178,438
Pooled Real Estate Funds	139,657	322,825	773,480	1,712,636
PRIT Cash Fund	760,826	19,195	45,466	42,937
PRIT Core Fund	82,369,245	71,716,795	67,565,405	68,595,730
Accounts Receivable	0	0	50,886	25,800
Accounts Payable	0	0	(19)	0
<b>Total</b>	<u>\$87,548,052</u>	<u>\$76,532,041</u>	<u>\$72,853,777</u>	<u>\$73,524,722</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$22,030,932	\$21,399,579	\$20,861,764	\$19,480,730
Annuity Reserve Fund	4,208,646	4,305,186	4,221,628	4,665,364
Pension Fund	(8,013,098)	(6,676,176)	(5,283,651)	(3,912,385)
Military Service Fund	82,807	69,330	69,260	69,191
Expense Fund	0	0	0	0
Pension Reserve Fund	69,238,766	57,434,122	52,984,775	53,221,823
<b>Total</b>	<u>\$87,548,052</u>	<u>\$76,532,041</u>	<u>\$72,853,777</u>	<u>\$73,524,722</u>

## ANNUAL STATEMENTS (as submitted) (Continued)

### STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2014	\$18,336,684	\$5,149,837	(\$2,243,352)	\$66,154	\$0	\$48,676,344	\$69,985,668
Receipts	2,098,729	141,762	5,679,444	3,037	707,321	4,545,478	13,175,771
Interfund Transfers	(597,495)	597,495	0	0	0	0	0
Disbursements	(357,188)	(1,223,731)	(7,348,477)	0	(707,321)	0	(9,636,717)
Ending Balance 2014	19,480,730	4,665,364	(3,912,385)	69,191	0	53,221,823	73,524,722
Receipts	2,375,069	130,686	5,906,363	69	616,664	(237,047)	8,791,804
Interfund Transfers	(788,603)	788,603	0	(0)	0	0	0
Disbursements	(205,431)	(1,363,025)	(7,277,630)	0	(616,664)	0	(9,462,750)
Ending Balance 2015	20,861,764	4,221,628	(5,283,651)	69,260	0	52,984,775	72,853,777
Receipts	2,349,568	129,845	6,109,321	69	635,564	4,449,344	13,673,711
Interfund Transfers	(1,248,972)	1,248,969	0	0	0	3	0
Disbursements	(562,781)	(1,295,257)	(7,501,845)	0	(635,564)	0	(9,995,447)
Ending Balance 2016	21,399,579	4,305,186	(6,676,176)	69,330	0	57,434,122	76,532,041
Receipts	2,303,268	124,952	6,305,719	13,477	660,711	11,804,644	21,212,772
Interfund Transfers	(1,127,986)	1,127,986	0	0	0	0	0
Disbursements	(543,929)	(1,349,479)	(7,642,642)	0	(660,711)	0	(10,196,761)
Ending Balance 2017	\$22,030,932	\$4,208,646	(\$8,013,098)	\$82,807	\$0	\$69,238,766	\$87,548,052

# ANNUAL STATEMENTS (as submitted) (Continued)

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
<b>Annuity Savings Fund:</b>				
Members Deductions	\$2,075,108	\$1,975,153	\$1,942,069	\$1,843,472
Transfers from Other Systems	91,735	296,471	391,795	147,503
Member Make Up Payments and Re-deposits	29,788	39,567	5,262	20,910
Member Payments from Rollovers	85,799	14,899	14,294	65,116
Investment Income Credited to Member Accounts	<u>20,837</u>	<u>23,478</u>	<u>21,648</u>	<u>21,728</u>
Sub Total	<u>2,303,268</u>	<u>2,349,568</u>	<u>2,375,069</u>	<u>2,098,729</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>124,952</u>	<u>129,845</u>	<u>130,686</u>	<u>141,762</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	169,448	171,235	190,389	113,607
Received from Commonwealth for COLA and Survivor Benefits	35,842	123,762	48,452	46,579
Pension Fund Appropriation	6,032,030	5,814,324	5,665,496	5,519,258
Settlement of Workers' Compensation Claims	68,400	0	0	0
Recovery of 91A Overearnings	0	0	2,026	0
Sub Total	<u>6,305,719</u>	<u>6,109,321</u>	<u>5,906,363</u>	<u>5,679,444</u>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	13,408	0	0	2,971
Investment Income Credited to the Military Service Fund	<u>69</u>	<u>69</u>	<u>69</u>	<u>66</u>
Sub Total	<u>13,477</u>	<u>69</u>	<u>69</u>	<u>3,037</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>660,711</u>	<u>635,564</u>	<u>616,664</u>	<u>707,321</u>
<b>Pension Reserve Fund:</b>				
Interest Not Refunded	305	2,699	2,540	0
Miscellaneous Income	19,693	0	65	6,055
Excess Investment Income	<u>11,784,646</u>	<u>4,446,645</u>	<u>(239,652)</u>	<u>4,539,423</u>
Sub Total	<u>11,804,644</u>	<u>4,449,344</u>	<u>(237,047)</u>	<u>4,545,478</u>
<b>Total Receipts, Net</b>	<b>\$21,212,772</b>	<b>\$13,673,711</b>	<b>\$8,791,804</b>	<b>\$13,175,771</b>

# ANNUAL STATEMENTS (as submitted) (Continued)

## STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2017	2016	2015	2014
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$134,943	\$75,319	\$86,043	\$111,537
Transfers to Other Systems	408,987	487,462	119,389	245,651
Sub Total	<u>543,929</u>	<u>562,781</u>	<u>205,431</u>	<u>357,188</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	1,349,479	1,295,257	1,234,823	1,218,846
Option B Refunds	0	0	128,202	4,885
Sub Total	<u>1,349,479</u>	<u>1,295,257</u>	<u>1,363,025</u>	<u>1,223,731</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	5,350,490	5,270,628	5,066,890	5,139,745
Survivorship Payments	451,001	428,464	418,687	403,238
Ordinary Disability Payments	155,890	157,790	163,371	160,100
Accidental Disability Payments	1,043,470	1,055,733	1,059,775	1,103,928
Accidental Death Payments	363,952	328,235	293,661	290,961
Section 101 Benefits	56,191	58,539	56,958	55,412
3 (8) (c) Reimbursements to Other Systems	221,647	202,455	214,338	195,093
State Reimbursable COLA's Paid	0	0	3,950	0
Sub Total	<u>7,642,642</u>	<u>7,501,845</u>	<u>7,277,630</u>	<u>7,348,477</u>
<b>Expense Fund:</b>				
Salaries	130,824	126,382	121,453	110,569
Legal Expenses	23,736	16,184	2,996	20,467
Medical Expenses	0	0	0	4,382
Travel Expenses	723	2,074	2,043	2,062
Administrative Expenses	29,056	24,844	56,924	66,612
Professional Services	16,250	17,090	16,834	54,131
Education and Training	300	900	810	810
Furniture and Equipment	1,250	1,560	644	137
Management Fees	411,629	386,818	385,203	414,827
Consultant Fees	0	0	0	5,500
Rent Expenses	10,062	7,547	0	0
Service Contracts	30,996	46,362	24,125	22,340
Fiduciary Insurance	5,885	5,803	5,633	5,483
Sub Total	<u>660,711</u>	<u>635,564</u>	<u>616,664</u>	<u>707,321</u>
<b>Total Disbursements</b>	<b>\$10,196,761</b>	<b>\$9,995,447</b>	<b>\$9,462,750</b>	<b>\$9,636,717</b>

# ANNUAL STATEMENTS (as submitted) (Continued)

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
<b>Investment Income Received From:</b>				
Cash	\$43,112	\$20,018	\$4,892	\$3,156
Pooled or Mutual Funds	2,123,797	1,992,760	1,789,671	1,989,544
<b>Total Investment Income</b>	<u>2,166,909</u>	<u>2,012,777</u>	<u>1,794,564</u>	<u>1,992,700</u>
<b>Plus:</b>				
Realized Gains	3,609,195	2,122,568	2,667,571	3,288,336
Unrealized Gains	7,030,771	5,928,500	3,992,866	1,826,835
Sub Total	<u>10,639,966</u>	<u>8,051,068</u>	<u>6,660,438</u>	<u>5,115,171</u>
<b>Less:</b>				
Realized Loss	(111,468)	(18,355)	(449,626)	0
Unrealized Loss	(104,190)	(4,809,889)	(7,475,959)	(1,697,570)
Sub Total	<u>(215,658)</u>	<u>(4,828,244)</u>	<u>(7,925,585)</u>	<u>(1,697,570)</u>
<b>Net Investment Income</b>	<u>12,591,217</u>	<u>5,235,602</u>	<u>529,416</u>	<u>5,410,300</u>
<b>Income Required:</b>				
Annuity Savings Fund	20,837	23,478	21,648	21,728
Annuity Reserve Fund	124,952	129,845	130,686	141,762
Military Service Fund	69	69	69	66
Expense Fund	660,711	635,564	616,664	707,321
<b>Total Income Required</b>	<u>806,570</u>	<u>788,956</u>	<u>769,068</u>	<u>870,877</u>
Net Investment Income	<u>12,591,217</u>	<u>5,235,602</u>	<u>529,416</u>	<u>5,410,300</u>
Less: Total Income Required	<u>806,570</u>	<u>788,956</u>	<u>769,068</u>	<u>870,877</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$11,784,646</u>	<u>\$4,446,645</u>	<u>(\$239,652)</u>	<u>\$4,539,423</u>

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2017		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,994,106	4.6%
Pooled Alternative Investment Funds	284,219	0.3%
Pooled Real Estate Funds	139,657	0.2%
PRIT Cash Fund	760,826	0.9%
PRIT Core Fund	<u>82,369,245</u>	<u>94.1%</u>
<b>Grand Total</b>	<b><u>\$87,548,053</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2017, the rate of return for the investments of the Melrose Retirement System was 17.54%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Melrose Retirement System averaged 9.81%. 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 Melrose Retirement System was 8.54%.

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 INFORMATION (Continued)

### SUMMARY OF PLAN PROVISIONS

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

### ADMINISTRATION

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

### PARTICIPATION

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

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

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## SUPPLEMENTARY INFORMATION (Continued)

### MEMBER CONTRIBUTIONS

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

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

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

### SUPERANNUATION RETIREMENT

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### AMOUNT OF BENEFIT

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

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

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

### DEFERRED VESTED BENEFIT

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

## SUPPLEMENTARY INFORMATION (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

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

### DISABILITY RETIREMENT

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

#### ORDINARY DISABILITY

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

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### ACCIDENTAL DISABILITY

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

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$897.72 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 \$897.72 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

## SUPPLEMENTARY INFORMATION (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE (OPTION D)

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

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

### COST OF LIVING

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### METHODS OF PAYMENT

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

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

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

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

### ALLOCATION OF PENSION COSTS

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

## SUPPLEMENTARY INFORMATION (Continued)

### SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

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

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

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

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

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

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

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

## SUPPLEMENTARY INFORMATION (Continued)

### ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor 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: Patrick Dello Russo, Chairman

Appointed Member: Kelly Cogavin Serves until a successor is appointed

Elected Member: Scott Colborne Term Expires: 12/15/2022

Elected Member: Michael L. Lyle Term Expires: 12/16/2023

Appointed Member: John McLaughlin, Jr. Term Expires: 06/27/2025

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

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

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

### BOARD REGULATIONS

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

## SUPPLEMENTARY INFORMATION (Continued)

### ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc as of January 1, 2021.

The actuarial liability for active members was	\$62,025,488
The actuarial liability for inactive members was	2,424,762
The actuarial liability for retired members was	<u>96,118,649</u>
The total actuarial liability was	\$160,568,899
System assets as of that date were (actuarial value)	<u>99,443,158</u>
The unfunded actuarial liability was	<u>\$61,125,741</u>
The ratio of system's assets to total actuarial liability was	61.9%
As of that date the total covered employee payroll was	\$22,734,319

The normal cost for employees on that date was	9.6% of payroll
The normal cost for the employer including expenses was	6.9% of payroll

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

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

### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2021

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 )
1/1/2021	\$99,443,158	\$160,568,899	\$61,125,741	61.9%	\$22,734,319	268.9%
1/1/2019	\$88,573,603	\$151,930,042	\$63,356,439	58.3%	\$21,553,090	294.0%
1/1/2017	\$80,013,523	\$139,160,865	\$59,147,342	57.5%	\$20,504,181	288.5%
1/1/2015	\$71,561,202	\$130,950,165	\$59,388,963	54.6%	\$19,293,027	307.8%
1/1/2013	\$62,208,163	\$116,078,481	\$53,870,318	53.6%	\$17,889,487	301.1%

## SUPPLEMENTARY INFORMATION (Continued)

### MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Retirement in Past Years</b>										
Superannuation	7	9	8	10	15	18	10	12	19	19
Ordinary Disability	0	0	0	2	1	0	0	0	0	0
Accidental Disability	3	1	0	0	0	0	0	0	1	0
<b>Total Retirements</b>	10	10	8	12	16	18	10	12	20	19
 Total Retirees, Beneficiaries and Survivors	382	375	373	368	372	376	372	371	375	379
 Total Active Members	403	403	384	435	446	456	463	453	455	444
<b>Pension Payments</b>										
Superannuation	\$4,151,771	\$4,432,830	\$4,534,931	\$4,698,897	\$4,868,838	\$5,087,072	\$5,139,746	\$5,066,890	\$5,270,628	\$5,350,187
Survivor/Beneficiary Payments	354,403	362,453	391,813	414,323	423,814	427,704	403,238	418,687	428,464	451,001
Ordinary Disability	129,110	132,203	135,312	166,977	162,375	171,149	160,100	163,371	157,790	155,890
Accidental Disability	1,039,819	1,099,221	1,155,875	1,110,722	1,099,462	1,117,530	1,103,928	1,059,775	1,055,733	1,043,470
Other	352,488	420,048	406,335	417,151	481,381	527,606	541,466	568,907	589,230	642,093
<b>Total Payments for Year</b>	<u>\$6,027,591</u>	<u>\$6,446,755</u>	<u>\$6,624,266</u>	<u>\$6,808,070</u>	<u>\$7,035,870</u>	<u>\$7,331,061</u>	<u>\$7,348,477</u>	<u>\$7,277,630</u>	<u>\$7,501,845</u>	<u>\$7,642,641</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](http://www.mass.gov/perac)

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

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

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

August 28, 2023

Patrick Dello Russo, Chairperson  
Melrose Retirement Board  
City Hall  
562 Main Street  
Melrose, MA 02176

**REFERENCE:** Report of the Examination of the Melrose Retirement Board for the four-year period from January 1, 2014, through December 31, 2017.

Dear Chairperson Dello Russo:

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

**1. The Audit Report cited a finding that the City charged the Retirement Board rent without a lease agreement and a portion of the salaries of five city employees.**

**Follow-up Result:** During the September 28, 2022 Board meeting, the members voted to remove these expenses from their budget, and to use outside counsel as the Board's attorney. None of these costs were paid in 2023. This issue is resolved.

**2. The Audit Report cited a finding that the Board did not keep separate procurement files for RFPs. For the legal services RFP during the audit period, the ranking of responses was not performed by all Board members.**

**Follow-up Result:** It was confirmed there are separate procurement files being kept for each RFP. The 2022 RFP request for Legal Services procurement files contained input from all Board members. This issue is resolved.



August 28, 2023  
Melrose Follow up letter  
Page Two

**3. The Audit Report cited a finding the Board used a debit card for travel, food, and supply purchases. The Board does have a regulation for credit card use which had not been applied to the debit card.**

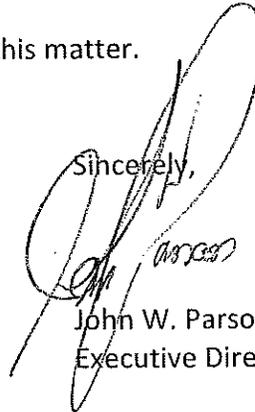
**Follow-up Result:** It is confirmed that after the audit report was published, there was no further use of the debit card. This issue is resolved.

The additional matters discussed have been reviewed and the majority of the matters have been resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Melrose Retirement Board to correct the issues from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'John W. Parsons', is written over the word 'Sincerely,'. The signature is stylized and somewhat cursive.

John W. Parsons, Esq.  
Executive Director

JWP/Ita(  
cc: Melrose Retirement Board Members