PERAC AUDIT REPORT

Milford
Contributory Retirement System

JAN. 1, 2013 - DEC. 31, 2016

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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December 3, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Milford Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Elaine Pursley and Teri Coley who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation:

During the audit testing of active and retired members, several errors in the determination of regular compensation were found. The Geriatric Authority was withholding retirement contributions from bonuses, the School department withheld retirement contributions from a retirement incentive, and the Housing Authority withheld retirement contributions from sick/vacation time payouts. Pursuant to 840 CMR 15.03 (3)(f), none of these payments qualify as regular compensation.

Recommendation: Any deductions withheld in error should be returned to the members, and pensions that included these amounts need to be adjusted.

Board Response:

Administration will review the deductions taken in error, return them to the member and recalculate the allowance. Administration is now requiring payroll records with detail to verify these situations to determine regular compensation compliance.

2. Retirement Allowance Calculations:

In our review of retirement allowance calculations, we tested a sample of 19 members who had retired during the years 2013 through 2016. We found errors in the calculations of seven different retirees and these errors are separated by retirement category as follows:

- Accidental Disability Retirements-
  - The audit found that the Board was not correctly calculating the average annual rate of regular compensation for the last twelve months for which the member received regular compensation (when it was greater than the rate on the date of injury). The Board was using earnings that resulted in a lower benefit. We noted three accidental disability retirees who were underpaid in a range from $262 to more than $5,500 per year.
- Superannuation Retirements-
  - We found the Board was using deduction reports instead of payroll registers to determine the earnings to be used in the retirement allowance calculations for all retirees. Consequently, they were unable to discover that deductions were being taken from pay that should be excluded from regular compensation as discussed in the Regular Compensation finding. This resulted in the miscalculation of three of the pensions tested.
  - An error made in the calculation of an amount owed by a member who had underpaid deductions on custodian pay resulted in the double counting of some deductions. This led to inflated earnings being used in the retirement allowance calculation.

Recommendation: The Board should review all accidental disability retirements to ensure that the correct average annual rate of regular compensation was used in the calculations and make any necessary corrections to retirees.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The Board should review all retirement allowance calculations that used deduction reports to determine earnings during the audit period up to the present. The Board should use payroll registers to determine the proper regular compensation to be used in retirement allowance calculations.

Board Response (in part):
The Board understands that errors could happen using only the deduction reports and Administration is now using payroll records for all members.

PERAC Response:
The Board requested and received a waiver from PERAC, which allows the Board to calculate and administer a retirement allowance without sending the calculation in to PERAC for approval. As such, it is the responsibility of the Board to calculate the retirement allowances. PERAC approves all disability calculations based upon the information provided by the Board.

The Board should review Chapter 41, §111F which states that injured on duty pay is to be considered regular compensation. Therefore, this pay type should have retirement deductions taken and be included as regular compensation when considering the last 12 months or regular compensation in an accidental disability calculation.

3. Affidavits:
The Affidavits for 2016 were mailed out October 2016. There were still five retirees who had not responded as of the time of the audit (February 2018) but were still receiving their allowances. Two of these affidavits were returned during our audit.

Recommendation: The Board should follow their procedures, including when to stop payments for retirees.

Board Response:
Five were still outstanding and administration did not stop checks due to being in contact by phone with the retiree assuring that the retiree was still alive.

PERAC Response:
The Retirement Board must apply 840 CMR 15.01(2) which states in part 'The retirement board shall withhold the retirement benefits of any member or beneficiary who fails to file the affidavit within the time prescribed. . .' to all of the System's retirees. The five outstanding affidavits were not returned in a timely manner, two were returned 16 months after the original request was mailed and three were not returned at all.

4. Request For Proposals (RFP):
The Board did not solicit proposals through an RFP when it hired an attorney in 2016, as required by Chapter 32, §23B and 32, §23(3). The Board voted in Executive Session to have the Chairman select and retain legal representation for litigation. Procurements should not be completed by one Board member, but should be completed by the entire Retirement Board.

Additionally, procurements should not be discussed in Executive Session, as this is in violation of the Open Meeting Law. All procurements should be discussed and awarded in Open Session by the Retirement Board.

Recommendation: The Board must follow procedures and adhere to requirements found in Chapter 32, §23B and described in PERAC Memo #15/ 2012 for the procurement of services.

Board Response:
The only reason that procurement was discussed in executive session was because of the nature of why we were in executive session in the first place. The Board did not go into executive session solely to discuss procurement. The Board moved to executive session under a proper reason to be in executive session (litigation). Because the Board needed to move quickly, the Board voted to authorize the chairman to select counsel and respond to the complaint as quickly as possible. Therefore, the Board was fully aware that the Chair was to select counsel.

PERAC Response:
The Board acted properly in entering executive session to discuss upcoming litigation, however, once the subject turned to procuring services, the Board should have exited executive session. Procurement of legal services should be discussed by the full Board and voted on in open session.

5. Buybacks:
The audit testing revealed errors in buyback calculations.

- One buyback of prior service included a total of three years of earnings for one year in the buyback calculation.
- A veteran was credited with four years even though it was not supported by information provided in file, including the DD214.
- One buyback included substitute pay that was counted as one hour when it was actually for one day, resulting in an understatement of service. This same buyback also charged full actuarial interest, but since it was for service at Milford, buyback interest should have been used.
- The make-up payment for custodian pay mentioned in the Retirement Allowance Calculations finding improperly charged interest to the member.

Recommendation: Buyback calculations should be reviewed for accuracy of information and should be documented in the member's file. Buyback interest (half of actuarial interest) should be charged for buybacks of service at the same Board. Interest should not be charged on underpaid deductions.

Board Response:
The Board understands why this is a finding and has put additional procedures in place to try to prevent future errors. It has been office practice that erroneous omission of deductions are not to include interest on a buy back or correction when identified internally.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

6. §3(8)(c) Reimbursements To Other Systems:

The audit found that Milford was paying too much to the State Retirement Board for two retirees that had revised letters reducing their §3(8)(c) amounts due. We estimated that Milford overpaid $25,700 to the State Retirement Board for the audit period. This is a continuing matter that will need to be addressed.

Recommendation: The Board should compare all invoices from other systems to the PERAC §3(8)(c) letters on file for accuracy before payments are made.

Board Response:

Administration will be reviewing all modified 3(8)(c) letters from PERAC to ensure that the proper amounts will be paid moving forward. With turnover in the department, it was obviously overlooked. The backup material for these payments will be updated and all new payments will be in compliance with the approved amounts.

PERAC Response:

The Board should either attempt to obtain a refund from the State Retirement Board or adjust next year's 3(8)(c) payments to recoup the amount overpaid.

FINAL DETERMINATION:

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

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2016	2015	2014	2013
Net Assets Available For Benefits:				
Cash	$429,715	$495,584	$1,895,774	$2,111,122
PRIT Cash Fund	350,366	550,139	550,062	550,048
PRIT Core Fund	80,990,844	72,884,073	73,680,097	68,783,506
Prepaid Expenses	936	8,427	17,285	35,633
Accounts Receivable	19,693	2,163,094	8,061	12,684
Accounts Payable	0	(144,592)	(35,506)	(35,506)
Total	$81,791,554	$75,956,726	$76,115,774	$71,457,486
Fund Balances:				
Annuity Savings Fund	$21,656,375	$20,958,348	$20,040,796	$20,165,308
Annuity Reserve Fund	3,836,868	3,678,285	3,905,707	3,049,692
Pension Fund	2,125,695	2,436,180	3,590,282	4,754,095
Expense Fund	0	0	0	0
Pension Reserve Fund	54,172,616	48,883,915	48,578,990	43,488,392
Total	$81,791,554	$75,956,726	$76,115,774	$71,457,486

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2013)	$20,415,619	$1,820,850	$4,989,369	$0	$35,453,658	$62,679,497
Receipts	2,061,748	77,821	4,192,070	496,232	8,745,047	15,572,918
Interfund Transfers	(2,029,813)	2,029,813	710,314	0	(710,314)	0
Disbursements	(282,246)	(878,793)	(5,137,658)	(496,232)	0	(6,794,929)
Ending Balance (2013)	20,165,308	3,049,692	4,754,095	0	43,488,392	71,457,486
Receipts	1,968,939	104,186	4,318,715	542,107	5,090,598	12,024,545
Interfund Transfers	(1,759,320)	1,759,320	0	0	0	0
Disbursements	(334,131)	(1,007,491)	(5,482,528)	(542,107)	0	(7,366,257)
Ending Balance (2014)	20,040,796	3,905,707	3,590,282	0	48,578,990	76,115,774
Receipts	2,178,541	111,484	4,739,741	531,624	288,701	7,850,090
Interfund Transfers	(747,150)	730,927	0	0	16,223	0
Disbursements	(513,838)	(1,069,833)	(5,893,843)	(531,624)	0	(8,009,138)
Ending Balance (2015)	20,958,348	3,678,285	2,436,180	0	48,883,915	75,956,726
Receipts	2,180,465	111,088	5,893,949	575,181	5,288,701	14,049,384
Interfund Transfers	(1,208,234)	1,208,234	0	0	0	0
Disbursements	(274,203)	(1,160,739)	(6,204,433)	(575,181)	0	(8,214,557)
Ending Balance (2016)	$21,656,375	$3,836,868	$2,125,695	$0	$54,172,616	$81,791,554

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	$1,975,044	$1,898,058	$1,823,958	$1,810,554
Transfers from Other Systems	119,185	245,751	64,365	131,150
Member Make Up Payments and Re-deposits	55,201	4,455	18,008	75,785
Member Payments from Rollovers	0	0	37,052	21,404
Investment Income Credited to Member Accounts	31,035	30,277	25,556	22,856
Sub Total	2,180,465	2,178,541	1,968,939	2,061,748
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	111,088	111,484	104,186	77,821
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	131,132	200,232	45,995	102,764
Received from Commonwealth for COLA and Survivor Benefits	53,869	57,236	60,740	78,308
Pension Fund Appropriation	5,698,700	4,460,772	4,211,980	4,010,998
Settlement of Workers' Compensation Claims	0	15,500	0	0
Recovery of 91A Overearnings	10,248	6,000	0	0
Sub Total	5,893,949	4,739,741	4,318,715	4,192,070
Expense Fund:				
Investment Income Credited to the Expense Fund	575,181	531,624	542,107	496,232
Pension Reserve Fund:				
Federal Grant Reimbursement	72,226	70,586	73,308	91,994
Interest Not Refunded	3,601	3,494	1,115	1,372
Miscellaneous Income	8,497	9,004	4,184	10,340
Excess Investment Income	5,204,378	205,618	5,011,992	8,641,341
Sub Total	5,288,701	288,701	5,090,598	8,745,047
Total Receipts, Net	$14,049,384	$7,850,090	$12,024,545	$15,572,918

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	$174,242	$192,490	$131,790	$41,356
Transfers to Other Systems	99,961	321,348	202,342	240,890
Sub Total	274,203	513,838	334,131	282,246
Annuity Reserve Fund:				
Annuities Paid	1,160,739	1,069,833	1,007,491	878,793
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	4,417,106	4,233,638	4,157,378	3,739,104
Survivorship Payments	186,022	193,176	161,700	163,195
Ordinary Disability Payments	61,572	87,997	86,362	84,740
Accidental Disability Payments	1,156,024	926,726	812,891	804,355
Accidental Death Payments	187,619	185,669	183,719	181,769
Section 101 Benefits	9,773	9,488	9,212	8,943
3 (8) (c) Reimbursements to Other Systems	186,317	257,148	71,266	155,552
Sub Total	6,204,433	5,893,843	5,482,528	5,137,658
Expense Fund:				
Board Member Stipend	3,000	3,000	3,000	1,500
Salaries	112,308	104,347	113,967	98,489
Legal Expenses	5,558	0	0	0
Travel Expenses	2,596	1,770	2,361	1,858
Administrative Expenses	8,483	8,090	8,301	8,150
Professional Services	0	3,000	2,250	0
Education and Training	1,200	810	1,080	700
Furniture and Equipment	1,280	1,000	0	661
Management Fees	412,508	382,604	384,499	361,467
Service Contracts	22,775	21,688	20,655	19,300
Fiduciary Insurance	5,473	5,314	5,995	4,108
Sub Total	575,181	531,624	542,107	496,232
Total Disbursements	$8,214,557	$8,009,138	$7,366,257	$6,794,929

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2016	2015	2014	2013
Investment Income Received From:				
Cash	$2,177	$2,345	$2,737	$4,840
Pooled or Mutual Funds	2,201,787	1,947,368	2,050,496	1,885,093
Total Investment Income	2,203,963	1,949,713	2,053,233	1,889,932
Plus:				
Realized Gains	2,177,194	2,726,572	3,249,149	3,025,627
Unrealized Gains	6,589,602	3,827,925	4,680,364	7,803,199
Sub Total	8,766,796	6,554,497	7,929,513	10,828,826
Less:				
Realized Loss	(41,729)	(34,697)	0	0
Unrealized Loss	(5,007,348)	(7,590,511)	(4,298,905)	(3,480,508)
Sub Total	(5,049,077)	(7,625,208)	(4,298,905)	(3,480,508)
Net Investment Income	5,921,682	879,002	5,683,841	9,238,249
Income Required:				
Annuity Savings Fund	31,035	30,277	25,556	22,856
Annuity Reserve Fund	111,088	111,484	104,186	77,821
Expense Fund	575,181	531,624	542,107	496,232
Total Income Required	717,304	673,385	671,849	596,909
Net Investment Income	5,921,682	879,002	5,683,841	9,238,249
Less: Total Income Required	717,304	673,385	671,849	596,909
Excess Income (Loss) To The Pension Reserve Fund	$5,204,378	$205,618	$5,011,992	$8,641,341

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2016	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$429,715	0.5%
PRIT Cash Fund	350,366	0.4%
PRIT Core Fund	80,990,844	99.1%
Grand Total	$81,770,925	100.0%

For the year ending December 31, 2016, the rate of return for the investments of the Milford Retirement System was 8.18%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Milford Retirement System averaged 9.07%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Milford Retirement System was 8.13%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

The Milford Retirement System is invested 100% in PRIT, and therefore, has no supplementary investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Milford 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 3 classes of membership in the retirement system:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $871.56 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $871.56 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership
October 28, 1991
Employees who are available for employment for at least thirty-four (34) weeks, of not less than twenty (20) hours each week in every calendar year or employees earning at least $5,000.00 annually, must become members of the system.
Call fire fighters and Auxiliary Police shall be excluded from membership as of July 1, 1991.

January 18, 1985
Employees hired on a regular basis who work a minimum of twenty hours per week. (Amended by supplementary rule approved October 28, 1991.)

January 3, 1985
Intermittent provisional employees shall join the system after six months employment.

Creditable Service
October 28, 1991
Part-time employees' credit will be granted depending upon the work history of the employee. Two categories of employment are considered as follows:

A. Employees in this category will have worked on a less (less than 35 hours per week) than full time basis throughout their years of service. For this category of employee, credit will be granted on the basis of one year of credit for each year of service. The pension thus computed will be on an equitable basis as a full time employee. The deciding factor in the computation of the pension will be three-year average earnings.

B. Employees in this category will have worked on both a full time and part time capacity during their years of service. In this category, credit for service will be computed on an individual basis. For the full time service the employee will receive one year of credit for each year of service. For the part time service the employee will receive one year of credit for two years of part time service. An alternative computation of creditable service will be made by using actual hours worked that may be verified by actual payroll records. This computation will be made by using a ratio the dividend of which will represent the hours worked per year and the divisor will represent the normal hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work.

January 3, 1985
Part-time employees' credit will be granted depending upon the work history of the employee. Two categories of employment are considered as follows:

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

A. Employees in this category will have worked on a less than full time basis throughout their years of service. For this category of employee, credit will be granted on the basis of one year of credit for each year of service.

B. Employees in this category will have worked on both a full time and part time capacity during their years of service. In this category, credit for service will be computed on an individual basis. For the full time service the employee will receive one year of credit for each year of service. For the part time service the employee will receive one year of credit for two years of part time service. An alternative computation of creditable service will be made by using actual hours worked. This computation will be made by using a ratio the dividend of which will represent the hours worked per year and the divisor will represent the normal hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work. (Amended by supplementary rule approved October 28, 1991.)

Proof of Employment
September 4, 1985
Pursuant to § 18, the Board may require the employee to submit certain information as may be required to administer the system.

In cases where the member requests credit for prior service or for retirement under S56-60, it will be the responsibility of the member to prove such prior service with adequate documentation. Adequate documentation shall mean documentation that has significant indicia of reliability and independence of relationship to the member. Actual payroll documentation is the most reliable documentation. When such is not available, the Board may, in its discretion, accept secondary documentation of a contemporaneous independent and reliable nature such as Town Reports and publications and newspaper articles. Affidavits, which clearly indicate the time and place the member was employed, the relationship of the affiant to the member and the reason why or circumstances that the affiant remembers the member's employment during the period at issue may also be accepted provided that such affidavits have sufficient indicia of reliability and are otherwise supported by some contemporaneous secondary documents as described above.

January 3, 1985
In all cases where the member requests credit for prior service or for retirement under sections 56-60 of chapter 32, it will be the responsibility of the member to prove with adequate documentation as the board may require. In the case of retirement under sections 56-60 only actual payroll documentation will be accepted. (Amended by supplementary rule approved September 4, 1985.)

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Zachery A. Taylor, Chairman		
Appointed Member:	Michael A. Diorio	Term Expires:	06/30/2021
Elected Member:	Linda DeDominick	Term Expires:	06/30/2020
Elected Member:	Gerald F. Hennessy	Term Expires:	06/30/2019
Appointed Member:	Ernest P. Pettinari	Term Expires:	01/24/2021

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 & Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Public Employee Retirement Administration Commission as of January 1, 2017.

The actuarial liability for active members was	$67,961,852
The actuarial liability for vested terminated members was	372,165
The actuarial liability for non-vested terminated members was	249,740
The actuarial liability for retired members was	68,768,339
The total actuarial liability was	$137,352,096
System assets as of that date were (actuarial value)	83,636,802
The unfunded actuarial liability was	$53,715,294
The ratio of system's assets to total actuarial liability was	60.9%
As of that date the total covered employee payroll was	$21,129,012

The normal cost for employees on that date was	8.7% of payroll
The normal cost for the employer was	6.6% of payroll

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

Investment Return:	7.40% per annum
Rate of Salary Increase:	Varies by Group and Service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2017

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)
1/1/2017	$83,636,802	$137,352,096	$53,715,294	60.9%	$21,129,012	254.2%
1/1/2015	$73,002,341	$126,362,232	$53,359,891	57.8%	$19,493,616	273.7%
1/1/2013	$61,157,979	$109,670,647	$48,512,668	55.8%	$18,691,643	259.5%
1/1/2011	$61,220,936	$98,524,967	$37,304,031	62.1%	$17,669,158	211.1%
1/1/2009	$51,887,450	$89,386,638	$37,499,188	58.0%	$17,271,236	217.1%
1/1/2007	$58,885,516	$80,167,747	$21,282,231	73.5%	$15,519,681	137.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	9	5	14	6	9	6	23	18	14	13
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	1	0	0	0	0	1	0	2	1	1
Total Retirements	10	6	14	6	9	7	23	20	15	14
Total Retirees, Beneficiaries and Survivors	290	281	279	274	270	269	282	282	288	285
Total Active Members	449	459	425	442	468	478	474	467	470	493
Pension Payments										
Superannuation	$2,810,781	$2,870,766	$2,996,485	$3,155,214	$3,221,581	$3,366,608	$3,739,104	$4,157,378	$4,233,638	$4,417,106
Survivor/Beneficiary Payments	131,832	139,257	161,451	140,099	143,989	149,463	163,195	161,700	193,176	186,022
Ordinary Disability	45,402	49,696	78,786	80,087	81,581	88,214	84,740	86,362	87,997	61,572
Accidental Disability	836,999	842,855	844,044	844,143	818,283	819,726	804,355	812,891	926,726	1,156,024
Other	244,851	216,784	235,665	257,844	318,162	339,463	346,264	264,196	452,304	383,708
Total Payments for Year	$4,069,865	$4,119,358	$4,316,431	$4,477,387	$4,583,596	$4,763,474	$5,137,658	$5,482,528	$5,893,843	$6,204,433

October 8, 2019

Zachary A. Taylor, Chairman
Milford Retirement Board
52 Main Street
Town Hall
Milford, MA 01757

REFERENCE: Report of the Examination of the Milford Retirement Board for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairman Taylor:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Milford 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 Geriatric Authority withheld retirement contributions from bonuses, the School department withheld retirement contributions from a retirement incentive and the Housing Authority withheld retirement contributions from sick/vacation payouts. Pursuant to 840 CMR 15.03 (3)(f), none of these payments qualify as regular compensation.

Follow-up Result: We noted the Board has not yet refunded the contributions taken in error or recalculated the retirement allowances that were found in the audit. The Board is reviewing these contributions and plans to process refunds by November 2019. We were provided with a 2019 payroll from Geriatric Authority and found that bonuses were properly excluded from regular compensation for retirement contributions. We noted that a 2019 retiree from the Housing Authority was paid sick/vacation payouts that were properly excluded from regular compensation. We were not able to test the School department for retirement incentives as this has not been paid out in recent 2019 payrolls. This issue is partially resolved.

2. The Audit Report cited a finding that some retirement allowances tested were not calculated correctly. We found the Board did not calculate the last 12 months of regular compensation correctly for three accidental disability retirements. And the Board used deductions to determine regular compensation for superannuation retirements when there were deductions taken on pay that did not qualify as regular compensation.

Follow-up Result: The Board is still in the process of reviewing the retirements with errors found in the audit. We tested two recent (2017) accidental disability and two 2019 superannuation retirement allowance calculations. We found detailed payroll reports in the member folders that supported the regular compensation balances used in the allowance calculations. However, we tested three Option C retirements and noted that one of the three did not have the member's birth certificate, spouse's birth certificate or marriage certificate in the folder. These are required documents for Option C retirements. This issue is partially resolved.

3. The Audit Report cited a finding that there were five retirees who had not responded to the 2016 Affidavits mailing at the time of the audit (February 2018). These retirees were still receiving their retirement allowances.

Follow-up Result: The Board did not stop payments for the five retirees because they were in contact by phone and assured the retirees were still alive. The Board did obtain two of the 2016 Affidavit forms during the audit. We were provided with the 2018 Affidavits mailing and noted that there was only one affidavit form missing. This retiree was unable to complete the form and the Board was in contact with the retiree's attorney. This issue is resolved.

4. The Audit Report cited a finding that the Board did not solicit proposals through a Request For Proposals when it hired an attorney in 2016, as required by Chapter 32, section 23B.

Follow-up Result: We were not able to test because there were no new procurements since the last audit.

5. The Audit Report cited a finding that some of the buybacks tested were not calculated correctly. One buyback of prior service included a total of three years of earnings for one year in the calculation. Another buyback included substitute pay that counted one hour when it was actually for one day, resulting in an understatement of service. This same buyback charged full actuarial interest, but it should have been buyback interest since it was within the Milford Retirement System.

Follow-up Result: The Board is in the process of correcting the buyback errors found during the audit. We tested a 2019 buyback and 2018 redeposit of a refund. There were no problems with this testing. This issue is partially resolved.

6. The Audit Report cited a finding that Milford was paying too much to the State Retirement Board for two retirees that had revised letters reducing their 3(8)c amounts. We estimated that Milford had overpaid $25,700 to the State Retirement Board for the audit period.

Follow-up Result: Milford reached out to the State Retirement Board and was told that the State's older system did not allow for changes to the 3(8)c amounts. The State is updating the 3(8)c amounts in their new system and will then issue an invoice to Milford. Milford has not made any payments to the State from 2017-2019 and will apply the overpayment towards the next invoice. This issue is not resolved.

The additional matters discussed have been reviewed and most have been resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Milford Retirement Board to correct some of the issues from the most recent examination of the system. PERAC auditors will conduct an additional follow-up visit to ensure progress is being made in those areas that have not been corrected at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons

John W. Parsons, Esq.
Executive Director

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