

MILTON
RETIREMENT SYSTEM
AUDIT REPORT
JANUARY 1, 2015 - DECEMBER 31, 2018



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.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts	6
Statement of Disbursements	7
Investment Income	8
Supplementary Information:	
Schedule of Allocation of Investments Owned.....	9
Summary of Plan Provisions.....	10
Significant Accounting Policies	17
Administration of the System.....	19
Board Regulations	19
Actuarial Valuation and Assumptions.....	20
Membership Exhibit.....	21
Leased Premises	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

July 6, 2022

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Milton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2015 to December 31, 2018. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that investment balances are accurately stated, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, 7) that required member documentation is maintained, 8) that appropriations certified by PERAC for the fiscal years covered by the audit have been paid to the retirement system, and 9) that refunds issued by the system were correctly calculated.

To achieve these objectives, we inspected certain records of the Milton Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight and verified cash balances and investment balances. We tested a sample of travel expenses for Board approvals, supporting documentation, and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We reviewed a sample of member files for accuracy and completeness. We reviewed appropriations received and compared to PERAC appropriation letters for the fiscal years during the audit period. We also tested refunds issued during the audit period and recalculated the interest portion of the refunds tested.

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

1. Cash Reconciliations:

Cash reconciliations were prepared at the Treasurer's office however, the reconciliations tested were not compared to the Milton Retirement Board's General Ledger (GL) cash account balance. Unexplained variances were found between the Treasurer's cash balance and the GL during the audit period and in the most recent reconciliation done as of the start of audit field work (October 2021).

In addition, we found six checks totaling approximately \$3,100 that had been outstanding for more than six months on the October 2021 reconciliation. Two of these stale checks were over one year old.

Cash reconciliations and bank statements were not provided to Board members at the monthly Board meetings.

Recommendation: The Milton Retirement Board should work with the Treasurer's office to ensure the monthly bank account reconciliations are compared to the GL. Any variances with the GL should be reviewed and resolved in a timely manner. Any checks outstanding for more than six months should be reviewed and voided if necessary. Cash reconciliations and bank statements must be provided to Board members at the monthly meetings.

Board Response:

The Retirement Board is now in balance with the Treasurer's Bank Reconciliation. The outstanding checks were voided on 12/2/2021. The Board is receiving Bank Reconciliations, Cash Receipts, Disbursements, Adjustments, Trial Balance and General Ledger. January-March 2022 were submitted on May 26, 2022 to the Board.

2. Deceased Retirees:

Our testing of cash reconciliations revealed that there was a journal entry adjustment to the GL cash account on December 31, 2016 for two deceased retirees. The retirees died during 2016 and the entry was to correct cash for benefit payments made after their dates of death. However, the entry made was incorrect as it included amounts paid for taxes and health insurance and did not account for direct deposit payments that were not returned. The Board made a final entry at December 31, 2021 to correct the cash balance in the GL.

We found that one of these retirees was underpaid, as too many benefit checks were voided. Almost \$4,000 is owed to the retiree's estate for checks voided before the date of death.

We found that the other retiree was overpaid by approximately \$5,500 (6 months of benefits) because his direct deposit payment was not stopped timely. In July 2019, a letter was sent via certified mail by the Board's attorney to the deceased retiree's family requesting the return of the overpayment of benefits. The letter was returned to the Board's attorney as undeliverable.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The Milton Retirement Board should review documentation related to the voided checks for the deceased retiree who was underpaid and make the necessary payments to the estate. The Board should review available death match resources in order to prevent payments made to deceased retirees.

Board Response:

Katherine Hickey was underpaid by \$ 3,934.54 and the Board voted on May 26, 2022 to submit payment to the Estate of Katherine Hickey. This will be paid on the June 30, 2022 Payroll.

3. Board Meeting Minutes:

We noted the following when reading the monthly Board meeting minutes from January 2015 to July 2021:

- Minutes of five executive sessions in 2017 were missing.
- The Board's open session minutes do not clearly state the reason for entering the executive session for four of the twelve executive sessions during the time frame reviewed.

Recommendation: The Board must maintain all open and executive session meeting minutes in accordance with the Open Meeting Law. The chair needs to state the reason for the executive session before going into an executive session, and this should be reflected in the minutes.

Board Response:

The Chair of the Milton Retirement Board will state the reason for entering into executive session. All Executive Sessions Minutes have since been filed properly.

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,			
	2018	2017	2016	2015
Net Assets Available For Benefits:				
Cash	\$325,942	\$670,100	\$406,663	\$15,532
PRIT Cash Fund	409,052	1,041,511	433,784	413,550
PRIT Core Fund	131,092,709	133,371,697	115,173,268	108,314,126
Accounts Receivable	18,017	1,162	24,000	0
Accounts Payable	<u>0</u>	<u>(2,258)</u>	<u>0</u>	<u>0</u>
Total	<u>\$131,845,720</u>	<u>\$135,082,212</u>	<u>\$116,037,714</u>	<u>\$108,743,208</u>
Fund Balances:				
Annuity Savings Fund	\$25,803,508	\$24,375,353	\$22,996,622	\$22,562,061
Annuity Reserve Fund	5,178,278	5,323,537	5,553,339	5,161,472
Pension Fund	(1,345,092)	(257,165)	979,394	1,257,813
Military Service Fund	4,654	4,649	4,644	4,640
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>102,204,372</u>	<u>105,635,838</u>	<u>86,503,715</u>	<u>79,757,223</u>
Total	<u>\$131,845,720</u>	<u>\$135,082,212</u>	<u>\$116,037,714</u>	<u>\$108,743,208</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 2015	\$20,990,803	\$5,679,334	\$1,448,267	\$4,635	\$0	\$80,394,822	\$108,517,861
Receipts	2,233,479	159,942	5,564,372	5	725,385	362,064	9,045,246
Interfund Transfers	(414,254)	414,254	999,663	0	0	(999,663)	0
Disbursements	(247,967)	(1,092,057)	(6,754,489)	0	(725,385)	0	(8,819,899)
Ending Balance 2015	22,562,061	5,161,472	1,257,813	4,640	0	79,757,223	108,743,208
Receipts	2,367,735	157,084	5,904,829	5	784,398	7,666,232	16,880,283
Interfund Transfers	(1,460,633)	1,421,826	958,547	0	0	(919,740)	0
Disbursements	(472,541)	(1,187,042)	(7,141,795)	0	(784,398)	0	(9,585,777)
Ending Balance 2016	22,996,622	5,553,339	979,394	4,644	0	86,503,715	116,037,714
Receipts	2,519,180	158,969	6,186,114	5	815,550	19,055,847	28,735,665
Interfund Transfers	(932,909)	856,634	0	0	0	76,276	0
Disbursements	(207,539)	(1,245,405)	(7,422,673)	0	(815,550)	0	(9,691,167)
Ending Balance 2017	24,375,353	5,323,537	(257,165)	4,649	0	105,635,838	135,082,212
Receipts	2,908,091	153,561	6,652,826	5	900,655	(3,431,840)	7,183,298
Interfund Transfers	(1,021,775)	1,021,401	0	0	0	374	(0)
Disbursements	(458,161)	(1,320,221)	(7,740,753)	0	(900,655)	0	(10,419,790)
Ending Balance 2018	\$25,803,508	\$5,178,278	(\$1,345,092)	\$4,654	\$0	\$102,204,372	\$131,845,720

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Members Deductions	\$2,348,445	\$2,192,930	\$2,032,375	\$2,037,532
Transfers from Other Systems	272,578	197,110	245,243	112,986
Member Make Up Payments and Re-deposits	23,651	99,977	65,311	61,718
Member Payments from Rollovers	229,115	0	0	0
Investment Income Credited to Member Accounts	<u>34,301</u>	<u>29,163</u>	<u>24,807</u>	<u>21,243</u>
Sub Total	<u>2,908,091</u>	<u>2,519,180</u>	<u>2,367,735</u>	<u>2,233,479</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>153,561</u>	<u>158,969</u>	<u>157,084</u>	<u>159,942</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	238,371	155,109	204,718	190,873
Received from Commonwealth for COLA and Survivor Benefits	118,228	96,121	93,664	91,474
Pension Fund Appropriation	6,290,977	5,934,884	5,598,947	5,282,025
Settlement of Workers' Compensation Claims	5,250	0	7,500	0
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,652,826</u>	<u>6,186,114</u>	<u>5,904,829</u>	<u>5,564,372</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>900,655</u>	<u>815,550</u>	<u>784,398</u>	<u>725,385</u>
Pension Reserve Fund:				
Interest Not Refunded	0	0	238	0
Excess Investment Income	<u>(3,431,840)</u>	<u>19,055,847</u>	<u>7,665,994</u>	<u>362,064</u>
Sub Total	<u>(3,431,840)</u>	<u>19,055,847</u>	<u>7,666,232</u>	<u>362,064</u>
Total Receipts, Net	<u>\$7,183,298</u>	<u>\$28,735,665</u>	<u>\$16,880,283</u>	<u>\$9,045,246</u>

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2018	2017	2016	2015
Annuity Savings Fund:				
Refunds to Members	\$144,258	\$104,939	\$108,992	\$68,799
Transfers to Other Systems	<u>313,903</u>	<u>102,600</u>	<u>363,549</u>	<u>179,168</u>
Sub Total	<u>458,161</u>	<u>207,539</u>	<u>472,541</u>	<u>247,967</u>
Annuity Reserve Fund:				
Annuities Paid	<u>1,320,221</u>	<u>1,245,405</u>	<u>1,187,042</u>	<u>1,092,057</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	4,952,791	4,779,225	4,508,386	4,120,833
Survivorship Payments	571,031	478,353	501,236	526,209
Ordinary Disability Payments	66,580	71,797	48,912	47,162
Accidental Disability Payments	1,336,247	1,269,884	1,314,540	1,371,308
Accidental Death Payments	429,878	432,340	420,748	372,516
Section 101 Benefits	72,900	77,100	75,257	77,531
3 (8) (c) Reimbursements to Other Systems	206,705	212,778	169,288	139,865
State Reimbursable COLA's Paid	<u>104,620</u>	<u>101,198</u>	<u>103,429</u>	<u>99,065</u>
Sub Total	<u>7,740,753</u>	<u>7,422,673</u>	<u>7,141,795</u>	<u>6,754,489</u>
Expense Fund:				
Board Member Stipend	3,000	1,500	0	0
Salaries	116,885	85,763	136,855	113,581
Legal Expenses	17,439	32,374	29,586	28,983
Medical Expenses	0	75	0	0
Travel Expenses	139	1,858	2,628	1,898
Administrative Expenses	9,089	14,156	1,107	2,638
Education and Training	1,930	0	0	0
Furniture and Equipment	6,456	3,432	0	0
Management Fees	705,620	646,428	589,119	554,273
Rent Expenses	11,523	3,812	0	0
Service Contracts	22,065	20,390	19,420	18,495
Fiduciary Insurance	<u>6,510</u>	<u>5,762</u>	<u>5,682</u>	<u>5,516</u>
Sub Total	<u>900,655</u>	<u>815,550</u>	<u>784,398</u>	<u>725,385</u>
Total Disbursements	<u>\$10,419,790</u>	<u>\$9,691,167</u>	<u>\$9,585,777</u>	<u>\$8,819,899</u>

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2018	2017	2016	2015
Investment Income Received From:				
Pooled or Mutual Funds	<u>\$3,665,291</u>	<u>\$3,413,296</u>	<u>\$3,154,487</u>	<u>\$2,811,472</u>
Plus:				
Realized Gains	6,143,233	5,587,093	3,096,472	3,943,679
Unrealized Gains	<u>4,771,271</u>	<u>11,059,144</u>	<u>9,551,694</u>	<u>5,499,566</u>
Sub Total	<u>10,914,503</u>	<u>16,646,238</u>	<u>12,648,165</u>	<u>9,443,245</u>
Less:				
Realized Loss	0	0	(61,793)	(49,794)
Unrealized Loss	<u>(16,923,113)</u>	<u>0</u>	<u>(7,108,572)</u>	<u>(10,936,285)</u>
Sub Total	<u>(16,923,113)</u>	<u>0</u>	<u>(7,170,365)</u>	<u>(10,986,079)</u>
Net Investment Income	<u>(2,343,319)</u>	<u>20,059,534</u>	<u>8,632,288</u>	<u>1,268,638</u>
Income Required:				
Annuity Savings Fund	34,301	29,163	24,807	21,243
Annuity Reserve Fund	153,561	158,969	157,084	159,942
Military Service Fund	5	5	5	5
Expense Fund	<u>900,655</u>	<u>815,550</u>	<u>784,398</u>	<u>725,385</u>
Total Income Required	<u>1,088,522</u>	<u>1,003,686</u>	<u>966,294</u>	<u>906,574</u>
Net Investment Income	<u>(2,343,319)</u>	<u>20,059,534</u>	<u>8,632,288</u>	<u>1,268,638</u>
Less: Total Income Required	<u>1,088,522</u>	<u>1,003,686</u>	<u>966,294</u>	<u>906,574</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$3,431,840)</u>	<u>\$19,055,847</u>	<u>\$7,665,994</u>	<u>\$362,064</u>

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2018		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$325,942	0.2%
PRIT Cash Fund	409,052	0.3%
PRIT Core Fund	<u>131,092,709</u>	<u>99.4%</u>
Grand Total	<u>\$131,827,703</u>	<u>100.0%</u>

For the year ending December 31, 2018, the rate of return for the investments of the Milton Retirement System was -1.81%. For the five-year period ending December 31, 2018, the rate of return for the investments of the Milton Retirement System averaged 6.45%. For the 34-year period ending December 31, 2018, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Milton Retirement System was 9.18%.

The composite rate of return for all retirement systems for the year ending December 31, 2018 was -2.25%. For the five-year period ending December 31, 2018, the composite rate of return for the investments of all retirement systems averaged 6.22%. For the 34-year period ending December 31, 2018, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.00%.

SUPPLEMENTARY INFORMATION (Continued)

SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Milton 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 \$924.60 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 \$924.60 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 Town Accountant 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: Karen Preval

Appointed Member: Paige A. Eppolito, Chairperson Term Expires: 07/31/2024

Elected Member: William H. Murphy Jr. Term Expires: 06/30/2022

Elected Member: Thomas Cicerone Term Expires: 06/30/2023

Appointed Member: Robert O'Melia Term Expires: 04/29/2024

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

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2021.

The actuarial liability for active members was	\$86,965,261
The actuarial liability for vested terminated members was	355,037
The actuarial liability for non-vested terminated members was	727,384
The actuarial liability for retired members was	<u>91,679,170</u>
The total actuarial liability was	\$179,726,852
System assets as of that date were (actuarial value)	<u>159,295,010</u>
The unfunded actuarial liability was	<u>\$20,431,842</u>
The ratio of system's assets to total actuarial liability was	88.6%
As of that date the total covered employee payroll was	\$26,842,460

The normal cost for employees on that date was 9.2% of payroll

The normal cost for the employer including administrative expenses was 10.8% of payroll

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

Investment Return: 7.00% 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	\$159,295,010	\$179,726,852	\$20,431,842	88.6%	\$26,842,460	76.1%
1/1/2019	\$136,279,154	\$164,915,851	\$28,636,697	82.6%	\$23,757,438	120.5%
1/1/2017	\$118,691,627	\$145,685,511	\$26,993,884	81.5%	\$21,570,045	125.1%
1/1/2015	\$103,858,692	\$135,674,415	\$31,815,723	76.5%	\$21,049,175	151.1%
1/1/2013	\$86,729,191	\$121,723,171	\$34,993,980	71.3%	\$19,175,686	182.5%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retirement in Past Years										
Superannuation	8	12	10	8	9	11	8	11	7	11
Ordinary Disability	1	0	0	0	0	0	0	1	0	0
Accidental Disability	2	2	0	0	0	0	0	0	0	0
Total Retirements	11	14	10	8	9	11	8	12	7	11
Total Retirees, Beneficiaries and Survivors	273	274	273	267	263	269	268	265	271	270
Total Active Members	340	335	355	365	368	367	382	388	411	415
Pension Payments										
Superannuation	\$3,391,819	\$3,628,268	\$3,728,296	\$3,764,540	\$3,886,567	\$3,982,084	\$4,120,833	\$4,508,386	\$4,779,225	\$4,952,791
Survivor/Beneficiary Payments	512,839	513,745	499,758	469,366	495,177	547,595	526,209	501,236	478,353	571,031
Ordinary Disability	31,633	40,608	41,806	43,130	44,466	45,812	47,162	48,912	71,797	66,580
Accidental Disability	1,066,354	1,213,434	1,334,262	1,352,983	1,336,478	1,382,956	1,371,308	1,314,540	1,269,884	1,336,247
Other	<u>602,931</u>	<u>594,269</u>	<u>589,640</u>	<u>605,470</u>	<u>602,657</u>	<u>629,254</u>	<u>688,977</u>	<u>768,722</u>	<u>823,415</u>	<u>814,104</u>
Total Payments for Year	<u>\$5,605,576</u>	<u>\$5,990,324</u>	<u>\$6,193,762</u>	<u>\$6,235,488</u>	<u>\$6,365,344</u>	<u>\$6,587,701</u>	<u>\$6,754,489</u>	<u>\$7,141,795</u>	<u>\$7,422,673</u>	<u>\$7,740,753</u>

SUPPLEMENTARY INFORMATION (Continued)

LEASED PREMISES

The Milton Retirement Board leases approximately 635 square feet of space for its office located at 40 Willard St in Quincy. They signed a 5-year lease which started on November 1, 2017 and will expire on October 31, 2022. The landlord is Hajjar Management Co., Inc.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2018:

<u>For the year ending:</u>	<u>Annual Rent</u>
2019	\$11,842
2020	12,192
2021	12,554
2022 (10 months)	<u>10,720</u>
Total future minimum lease payments required	<u>\$47,308</u>

A security deposit of \$953 was paid in October 2017.



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

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.

May 22, 2023

Paige Eppolito, Chairperson
Milton Retirement Board
40 Willard St., Suite #G102
Quincy, MA 02169

REFERENCE: Report of the Examination of the Milton Retirement Board for the four-year period from January 1, 2015 through December 31, 2018.

Dear Chairperson Eppolito:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Milton 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 bank reconciliations were not being compared to the board general ledger. The report also cited that there were old outstanding checks and that the bank statements and reconciliations were not being presented at monthly board meetings.

Follow-up Result: Bank reconciliations are being compared to the board general ledger, the old outstanding checks were cleared, and the bank statements and reconciliations are being presented to board members. This issue is resolved.

2. The Audit Report cited a finding that a deceased retiree was underpaid almost \$4,000 and also recommended that death match resources be used to help prevent improper payments.

Follow-up Result: A payment was made to the deceased retiree's estate. The Board is now using death match resources. This issue is resolved.



May 22, 2023

Milton Retirement System Follow up letter

Page Two

3. The Audit Report cited a finding that certain executive session minutes were not available. The report also noted that the open session board minutes didn't indicate why the meeting was moving to executive session.

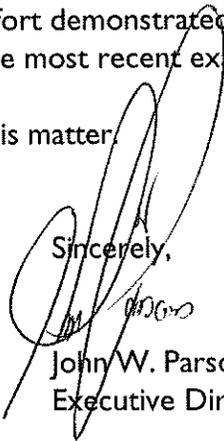
Follow-up Result: Executive session minutes are being retained and recent board minutes are noting the reason for going into executive session. This issue is resolved.

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

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

Thank you for your continued cooperation in this matter.

Sincerely,



John W. Parsons, Esq.
Executive Director

JWP/tal

cc: Milton Retirement Board Members