

PERAC AUDIT REPORT



Reading
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016



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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 | ROBERT B. McCARTHY | JENNIFER F. SULLIVAN

February 7, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Reading 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 noted in the finding presented in this report.

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

Sincerely,



John W. Parsons
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Confirmation and Approval of Wire Transfers:

We found limited documentation and confirmation correspondence to support the audit trail associated with many wire transfer transactions relating to the Massachusetts Municipal Depository Trust (MMDT) and the Reading Co-operative Bank transfers. Furthermore, we did not observe any formal Board authorization for these wire transfers.

Recommendation: The wire transfer activity must be approved on a monthly basis by the Reading Retirement Board. Wires initiated by the Treasurer should be confirmed to the Town Accountant to establish a proper segregation of the fund transfer functions.

Board Response:

On a monthly basis, starting in January 2019, the Retirement Board will add to the agenda any documentation corresponding to the wires for recognition and approval by the Board. In addition, any wires initiated by the Town Treasurer will now be signed off by the Board Administrator and the Town Accountant to ensure checks and balances of the wires.

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	\$213,826	\$180,686	\$250,280	\$200,260
PRIT Cash Fund	2,225,414	1,750,175	1,820,079	1,700,056
PRIT Core Fund	121,496,781	116,101,358	116,900,024	110,085,635
Prepaid Expenses	8,400	9,012	138	375
Accounts Receivable	47,821	36,565	49,446	77,105
Accounts Payable	<u>0</u>	<u>0</u>	<u>(24)</u>	<u>(8,857)</u>
Total	<u>\$123,992,243</u>	<u>\$118,077,797</u>	<u>\$119,019,943</u>	<u>\$112,054,574</u>
Fund Balances:				
Annuity Savings Fund	\$25,386,544	\$25,676,915	\$24,769,856	\$23,683,160
Annuity Reserve Fund	9,057,616	8,018,085	7,761,890	7,517,653
Pension Fund	9,960,187	12,916,549	15,530,994	17,933,966
Military Service Fund	26,819	26,793	26,766	33,056
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>79,561,076</u>	<u>71,439,455</u>	<u>70,930,437</u>	<u>62,886,739</u>
Total	<u>\$123,992,243</u>	<u>\$118,077,797</u>	<u>\$119,019,943</u>	<u>\$112,054,574</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2013	\$23,175,236	\$6,863,746	\$0	\$33,023	\$0	\$68,880,592	\$98,952,597
Receipts	2,281,722	218,544	5,087,397	33	699,392	14,006,147	22,293,235
Interfund Transfers	(1,655,953)	1,655,953	20,000,000	0	0	(20,000,000)	0
Disbursements	(117,845)	(1,220,590)	(7,153,431)	0	(699,392)	0	(9,191,258)
Ending Balance 2013	23,683,160	7,517,653	17,933,966	33,056	0	62,886,739	112,054,574
Receipts	2,735,721	233,117	5,345,519	33	724,724	8,043,698	17,082,811
Interfund Transfers	(1,337,862)	1,344,185	0	(6,323)	0	0	0
Disbursements	(311,163)	(1,333,064)	(7,748,490)	0	(724,724)	0	(10,117,442)
Ending Balance 2014	24,769,856	7,761,890	15,530,994	26,766	0	70,930,437	119,019,943
Receipts	2,685,669	237,956	5,501,425	27	716,127	509,018	9,650,221
Interfund Transfers	(1,456,148)	1,456,148	0	0	0	0	0
Disbursements	(322,461)	(1,437,909)	(8,115,871)	0	(716,127)	0	(10,592,367)
Ending Balance 2015	25,676,915	8,018,085	12,916,549	26,793	0	71,439,455	118,077,797
Receipts	2,525,329	256,662	5,856,849	27	876,690	8,121,886	17,637,444
Interfund Transfers	(2,371,818)	2,372,083	0	0	0	(264)	0
Disbursements	(443,883)	(1,589,214)	(8,813,210)	0	(876,690)	0	(11,722,997)
Ending Balance 2016	\$25,386,544	\$9,057,616	\$9,960,187	\$26,819	\$0	\$79,561,076	\$123,992,243

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	\$2,328,542	\$2,334,168	\$2,116,219	\$2,030,492
Transfers from Other Systems	140,051	247,381	525,149	167,629
Member Make Up Payments and Re-deposits	31,762	13,713	40,859	28,802
Member Payments from Rollovers	0	61,832	28,080	27,837
Investment Income Credited to Member Accounts	<u>24,974</u>	<u>28,575</u>	<u>25,414</u>	<u>26,961</u>
Sub Total	<u>2,525,329</u>	<u>2,685,669</u>	<u>2,735,721</u>	<u>2,281,722</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>256,662</u>	<u>237,956</u>	<u>233,117</u>	<u>218,544</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	201,561	223,441	205,560	150,152
Pension Fund Appropriation	229,159	81,180	174,802	189,356
Settlement of Workers' Compensation Claims	5,418,129	5,184,813	4,961,545	4,747,889
Recovery of 91A Overearnings	8,000	0	0	0
	<u>0</u>	<u>11,991</u>	<u>3,611</u>	<u>0</u>
Sub Total	<u>5,856,849</u>	<u>5,501,425</u>	<u>5,345,519</u>	<u>5,087,397</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>27</u>	<u>27</u>	<u>33</u>	<u>33</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>876,690</u>	<u>716,127</u>	<u>724,724</u>	<u>699,392</u>
Pension Reserve Fund:				
Interest Not Refunded	108	0	1,162	0
Miscellaneous Income	43	10	0	0
Excess Investment Income	<u>8,121,734</u>	<u>509,008</u>	<u>8,042,536</u>	<u>14,006,147</u>
Sub Total	<u>8,121,886</u>	<u>509,018</u>	<u>8,043,698</u>	<u>14,006,147</u>
Total Receipts, Net	<u>\$17,637,444</u>	<u>\$9,650,221</u>	<u>\$17,082,811</u>	<u>\$22,293,235</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	\$111,021	\$86,993	\$66,655	\$114,564
Transfers to Other Systems	<u>332,862</u>	<u>235,468</u>	<u>244,509</u>	<u>3,282</u>
Sub Total	<u>443,883</u>	<u>322,461</u>	<u>311,163</u>	<u>117,845</u>
Annuity Reserve Fund:				
Annuities Paid	1,582,448	1,436,170	1,333,064	1,220,590
Option B Refunds	<u>6,766</u>	<u>1,740</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,589,214</u>	<u>1,437,909</u>	<u>1,333,064</u>	<u>1,220,590</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	6,503,241	6,045,313	5,733,934	5,301,647
Survivorship Payments	316,983	314,286	296,871	285,392
Ordinary Disability Payments	41,801	41,081	40,361	39,641
Accidental Disability Payments	1,282,789	1,051,800	1,002,730	838,512
Accidental Death Payments	187,735	185,215	182,695	166,549
Section 101 Benefits	87,118	86,482	97,834	114,338
3 (8) (c) Reimbursements to Other Systems	282,142	272,408	266,705	269,570
State Reimbursable COLA's Paid	109,270	115,274	123,088	133,509
Chapter 389 Beneficiary Increase Paid	<u>2,131</u>	<u>4,012</u>	<u>4,274</u>	<u>4,274</u>
Sub Total	<u>8,813,210</u>	<u>8,115,871</u>	<u>7,748,490</u>	<u>7,153,431</u>
Expense Fund:				
Salaries	115,001	74,767	68,697	62,880
Legal Expenses	20,997	15,754	2,151	4,179
Medical Expenses	425	159	153	82
Travel Expenses	695	130	347	529
Administrative Expenses	11,043	3,851	3,740	6,512
Actuarial Services	3,125	10,750	(350)	8,850
Education and Training	540	199	270	450
Furniture and Equipment	27,624	0	0	0
Management Fees	639,647	609,279	610,554	582,058
Rent Expenses	29,733	1,000	1,000	0
Service Contracts	22,759	0	37,925	33,615
Fiduciary Insurance	<u>5,101</u>	<u>237</u>	<u>237</u>	<u>237</u>
Sub Total	<u>876,690</u>	<u>716,127</u>	<u>724,724</u>	<u>699,392</u>
Total Disbursements	<u>\$11,722,997</u>	<u>\$10,592,367</u>	<u>\$10,117,442</u>	<u>\$9,191,258</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Investment Income Received From:				
Cash	\$4,779	\$983	\$858	\$678
Pooled or Mutual Funds	<u>3,429,606</u>	<u>3,094,654</u>	<u>3,258,912</u>	<u>3,035,616</u>
Total Investment Income	<u>3,434,385</u>	<u>3,095,637</u>	<u>3,259,770</u>	<u>3,036,294</u>
Plus:				
Realized Gains	3,380,415	4,328,390	5,164,381	4,871,316
Unrealized Gains	<u>10,335,891</u>	<u>6,137,695</u>	<u>7,447,551</u>	<u>12,604,735</u>
Sub Total	<u>13,716,305</u>	<u>10,466,085</u>	<u>12,611,932</u>	<u>17,476,051</u>
Less:				
Realized Loss	(67,103)	(56,113)	0	0
Unrealized Loss	<u>(7,803,499)</u>	<u>(12,013,916)</u>	<u>(6,845,879)</u>	<u>(5,561,267)</u>
Sub Total	<u>(7,870,602)</u>	<u>(12,070,029)</u>	<u>(6,845,879)</u>	<u>(5,561,267)</u>
Net Investment Income	<u>9,280,088</u>	<u>1,491,693</u>	<u>9,025,823</u>	<u>14,951,078</u>
Income Required:				
Annuity Savings Fund	24,974	28,575	25,414	26,961
Annuity Reserve Fund	256,662	237,956	233,117	218,544
Military Service Fund	27	27	33	33
Expense Fund	<u>876,690</u>	<u>716,127</u>	<u>724,724</u>	<u>699,392</u>
Total Income Required	<u>1,158,354</u>	<u>982,685</u>	<u>983,288</u>	<u>944,930</u>
Net Investment Income	<u>9,280,088</u>	<u>1,491,693</u>	<u>9,025,823</u>	<u>14,951,078</u>
Less: Total Income Required	<u>1,158,354</u>	<u>982,685</u>	<u>983,288</u>	<u>944,930</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$8,121,734</u>	<u>\$509,008</u>	<u>\$8,042,536</u>	<u>\$14,006,147</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$213,826	0.2%
PRIT Cash Fund	2,225,414	1.8%
PRIT Core Fund	<u>121,496,781</u>	<u>98.0%</u>
Grand Total	<u>\$123,936,022</u>	<u>100.0%</u>

For the year ending December 31, 2016, the rate of return for the investments of the Reading Retirement System was 8.14%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Reading Retirement System averaged 9.29%. 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 Reading Retirement System was 9.18%.

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 Reading Retirement System voted on April 11, 1988 to invest all of the system's assets with the PRIT fund as of June 1, 1988. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

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

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

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

ACCIDENTAL DEATH

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership

June 30, 2017

Anyone employed by the Town of Reading or the Reading Housing Authority, whose total service for their primary position equals or exceeds 1,690 **scheduled** hours per year shall be enrolled in the Reading Retirement System. The primary position is defined as the position with the highest number of hours. It may not be combined with any other position.

March 4, 1991

Anyone employed by the Town of Reading or the Reading Housing Authority on or after July 1, 1991, as a part-time, provisional, part-time temporary, temporary provisional, seasonal or intermittent employee, shall not be eligible to the Reading Retirement System.

Creditable Service

April 3, 2014

All eligible members must determine within 180 days of notification by the Reading Retirement Board whether or not to purchase their military service as creditable service. If choosing to purchase this military service, the member has the option of paying for this purchase at any time from the completion of his/her first year of membership until reaching his/her 10th year of membership. If, by the 10th year as a member, the member has not begun the payback, the member will not be allowed to buyback the Veteran Service.

June 19, 2003

All eligible members must determine within 180 days of notification by the Reading Retirement Board whether or not to purchase their military service as creditable service. If choosing to purchase this military service, the member has the option of paying for this purchase at any time from the completion of his/her first year of membership until reaching his/her 10th year of membership. If the member has not begun the payback by his/her 10th year as a member, then he/she must begin payroll deductions, make a lump-sum payment, or notify the Reading Retirement Board, in writing, of his/her decision to opt out of the program.

March 24, 2000

An employee who was initially enrolled as a member of the Reading Retirement System based upon employment in a full-time capacity and who subsequently takes a part-time position shall have the part-time service pro-rated according to the following schedule:

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Pro-Ration Table

Hours per week:	Creditable Service:
Over 14.0	5 months
Over 16.5	6 months
Over 19.0	7 months
Over 21.5	8 months
Over 24.5	9 months
Over 27.0	10 months
Over 29.5	11 months
32.5+	12 months

If a member's average weekly hours are based on a 52-week calendar year are over the amounts in the pro-ration table, the member will be credited with the service as listed.

For example, if a member works 22 hours per week for 15 years and then takes a full-time position for 10 additional years, the member would receive a total of 20 years of creditable service. The member would receive 8 months of creditable service for each of the 15 years that he/she worked 22 hours per week based on the above schedule. This amounts to 120 months or 10 years of creditable service. The member would also receive 10 years of creditable service for the ten years of full-time employment for a total of 20 years. Since the member's retirement allowance is calculated utilizing his/her highest three-year average annual rate of regular compensation (i.e., the full-time salary), the loss of creditable service upon conversion from part-time to full-time employment is offset by the increase in the rate of compensation used to calculate the amount of the retirement allowance.

Buybacks

March 7, 1996

The Retirement Board will not allow members to buy back previous employment with the Town of Reading on or after July 1, 1991, when the Town was required to withhold and match Social Security deductions. By allowing buybacks the Board would be requiring the Town to fund two retirements for the same period of employment. If, however, the employee had not contributed to Social Security, but opted for the ICMA deferral instead, the employee will be allowed to buy back time, as the Town does not match those deductions.

Miscellaneous

July 24, 2009

Recovery of Amounts in Excess of the Limitations Set Forth in G.L. c. 3, s. 91A

Any disability retiree from the Reading Retirement System who submits a statement of earnings to the Public Employee Retirement Administration Commission reflecting earnings in excess of the limits set out in G.L. c. 32, § 91A shall repay to the Board the amount of his/her retirement allowance equal to such excess earnings either in a lump sum or over an installment period not to

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

exceed twelve months. Where a member elects to repay the amount owed to the Board in installment payments, the Board secretary will calculate a repayment schedule to recoup the amount owed within the installment period. If any such repayment schedule requires withholding of the entire amount of a retiree's allowance, he/she may need to arrange to pay the percentage of premiums for health and life insurance which would otherwise be deducted from his/her monthly allowance in order to maintain insurance coverage.

Travel Regulations

June 22, 1994

The Reading Retirement System has adopted the Town of Reading personnel policies for their staff members that are equal to the benefits of the Town of Reading employees.

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 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:	Sharon M. Angstrom		
Appointed Member:	Carol B. Roberts	Term Expires:	12/31/20
Elected Member:	David A. Gentle	Term Expires:	3/31/20
Elected Member:	Joseph R. Veno, Chairman	Term Expires:	3/31/19
Appointed Member:	Thomas A. Clough	Term Expires:	3/31/21

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries, LLC as of January 1, 2017.

The actuarial liability for active members was	\$69,495,124
The actuarial liability for inactive members was	1,117,296
The actuarial liability for retired members was	<u>102,535,321</u>
The total actuarial liability was	\$173,147,741
System assets as of that date were (actuarial value)	<u>127,768,425</u>
The unfunded actuarial liability was	<u>\$45,379,316</u>
The ratio of system's assets to total actuarial liability was	73.8%
As of that date the total covered employee payroll was	\$24,883,071

The normal cost for employees on that date was	9.6% of payroll
The normal cost for the employer (including admin expenses) was	5.5% of payroll

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

Investment Return:	7.65% per annum
Rate of Salary Increase:	Varies by group and service ranging from 6% to 4.25% for Group 1 employees and 7% to 4.75% for Group 4 employees.

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	\$127,768,425	\$173,147,741	\$45,379,316	73.8%	\$24,883,071	182.4%
1/1/2015	\$116,227,245	\$159,188,784	\$42,961,539	73.0%	\$22,793,551	188.5%
7/1/2013	\$101,349,437	\$140,807,141	\$39,457,704	72.0%	\$22,546,502	175.0%
7/1/2011	\$91,359,151	\$134,440,050	\$43,080,899	68.0%	\$20,934,376	205.8%
7/1/2009	\$83,167,202	\$121,918,447	\$38,751,245	68.2%	\$21,004,628	184.5%
7/1/2007	\$84,783,719	\$112,011,696	\$27,227,977	75.7%	\$19,312,631	141.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	11	9	5	14	12	11	16	12	11	18
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	1	1	1	0	1	1	1	1
Total Retirements	11	9	6	15	13	11	17	13	12	19
 Total Retirees, Beneficiaries and Survivors	323	320	317	324	327	320	327	330	333	341
 Total Active Members	358	354	353	348	338	345	341	334	340	341
 Pension Payments										
Superannuation	\$3,784,621	\$3,910,751	\$3,875,526	\$4,673,923	\$4,969,831	\$5,004,487	\$5,301,647	\$5,733,934	\$6,045,313	\$6,503,241
Survivor/Beneficiary Payments	37,485	36,907	139,529	202,265	230,697	278,808	285,392	296,871	314,286	316,983
Ordinary Disability	55,460	55,460	28,697	37,481	38,201	38,921	39,641	40,361	41,081	41,801
Accidental Disability	757,687	751,378	734,048	919,634	946,402	969,712	838,512	1,002,730	1,051,800	1,282,789
Other	<u>1,207,093</u>	<u>1,263,585</u>	<u>1,303,666</u>	<u>579,676</u>	<u>622,053</u>	<u>689,853</u>	<u>688,239</u>	<u>674,595</u>	<u>663,390</u>	<u>668,395</u>
Total Payments for Year	<u>\$5,842,346</u>	<u>\$6,018,081</u>	<u>\$6,081,466</u>	<u>\$6,412,979</u>	<u>\$6,807,184</u>	<u>\$6,981,781</u>	<u>\$7,153,431</u>	<u>\$7,748,490</u>	<u>\$8,115,871</u>	<u>\$8,813,210</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Reading Retirement Board leases approximately 1,350 square feet of space for its offices located at Suite 307, 2 Haven Street, Reading, MA. They signed an initial 5-year lease term on February 1, 2016 which will expire on January 31, 2021. The landlord is GWT Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2016:

<u>For the year ending:</u>	<u>Annual Rent</u>	
2017	\$33,600.00	plus CPI increase
2018	\$33,600.00	plus CPI increase
2019	\$33,600.00	plus CPI increase
2020	\$33,600.00	plus CPI increase
2021	<u>\$2,800.00</u>	plus CPI increase
Total future minimum lease payments required	<u>\$137,200.00</u>	

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, *Executive Director*

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

September 27, 2019

Thomas Clough, Chairman
Reading Retirement Board
2 Haven Street
Unit 307
Reading, MA 01867

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

Dear Chairman Clough:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Reading Retirement System for the period referenced above. We conduct these visits as a regular part of the oversight process. The examination addressed the 1 findings and recommendation included in the audit report as well as the other matters discussed at the completion of the audit. The results are as follows:

1. The Audit Report cited a finding that there was limited documentation and confirmation correspondence to support the audit trail associated with wire transfer transactions. Furthermore, we did not observe any formal Board authorization for these wire transfers.

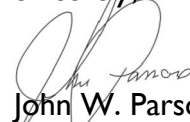
Follow-up Result: Examination of wire transfers initiated in 2019 show that the Board Administrator and the Town Accountant are approving the wire transfer requests. In addition, a review of the Board minutes for 2019 show that the Board is recording approval of the wire transfers in the minutes. The 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 Reading Retirement System 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



PERAC

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