

PERAC AUDIT REPORT



Salem
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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

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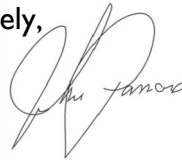
January 3, 2019

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

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

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

Sincerely,



John W. Parsons, Esq.
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Regular Compensation

A review of payroll found that a code for firefighters' outside details is currently subject to retirement withholding. These details occur outside normal working hours, so they are not regular compensation pursuant to 840 CMR 15.03 (3)(f).

Recommendation: The payroll department should be instructed to end withholding retirement deductions from the firefighter details and return the contributions withheld in error. The Board should review retirees whose retirement allowance may have been affected by the inclusion of this pay type in the calculation of the allowance.

Board Response:

The Salem Contributory Retirement Board recognizes the importance of ensuring that retirement deductions are assessed only on compensation which meets the definition of regular compensation, pursuant to 840 CMR 15.03. Immediately upon learning of the erroneous withholdings, The Salem Contributory Retirement System addressed the payroll code for firefighters' outside details with officials from the City of Salem to ensure that retirement deductions were no longer being withheld. The SCRS will issue refunds of contributions that were assessed in error and continue its efforts to keep the City of Salem informed of the definition of regular compensation. The Salem Retirement Board appreciates the recommendation made by the PERAC examiner and will continue to provide training on the definition of regular compensation to all five of the member units that fall under the jurisdiction of the Salem Contributory Retirement Board.

2. Refunds

Three of the thirteen refunds reviewed were paid an incorrect amount of interest. Two were paid 3% instead of the Annuity Savings Fund (ASF) rate, and one was paid the ASF rate instead of 3%.

Recommendation: The Board should attempt to contact these individuals and either collect the amount overpaid or pay the amount owed.

Board Response:

The Salem Contributory Retirement Board recognizes the importance of ensuring the proper application of section 25 of Chapter 131 of the Acts of 2010, with regard to the administration of refunds to members. The Salem Contributory Retirement System has designed and implemented an internal control checklist to be used when administering refunds and has begun routine audits of completed refunds. The SCRS has reached out to the individuals noted in the finding. The Salem Contributory Retirement Board appreciates the recommendation made by the PERAC examiner and will continue its efforts to ensure interest is properly assessed in the administration of refunds to members.

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	\$2,584,302	\$2,316,074	\$2,537,093	\$2,149,276
Short Term Investments	0	0	79,170	1,834,718
Pooled Alternative Investment Funds	122,707	153,844	192,680	164,605
Pooled Real Estate Funds	0	0	36,760	163,472
PRIT Core Fund	147,645,759	135,990,164	131,910,203	119,149,159
Accounts Receivable	0	59,173	805,490	324,992
Premises and Equipment, Net	88,281	91,406	94,531	97,656
Accounts Payable	(790)	(12,407)	(5,025)	(4,475)
Total	<u>\$150,440,259</u>	<u>\$138,598,253</u>	<u>\$135,650,901</u>	<u>\$123,879,403</u>
Fund Balances:				
Annuity Savings Fund	\$45,880,685	\$45,850,293	\$43,629,713	\$40,810,831
Annuity Reserve Fund	9,699,921	7,897,534	7,909,488	8,159,940
Pension Fund	2,421,757	1,906,934	1,285,459	587,054
Military Service Fund	759	758	757	757
Expense Fund	0	0	0	0
Pension Reserve Fund	92,437,137	82,942,735	82,825,484	74,320,821
Total	<u>\$150,440,259</u>	<u>\$138,598,253</u>	<u>\$135,650,901</u>	<u>\$123,879,403</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)	\$38,417,169	\$8,677,627	\$199,953	\$756	\$0	\$59,852,421	\$107,147,926
Receipts	4,094,572	245,683	11,830,321	1	839,766	14,468,341	31,478,685
Interfund Transfers	(1,104,234)	1,104,175	0	0	0	59	0
Disbursements	(596,675)	(1,867,546)	(11,443,220)	0	(839,766)	0	(14,747,208)
Ending Balance (2013)	40,810,831	8,159,940	587,053	757	0	74,320,822	123,879,403
Receipts	5,394,831	234,367	12,335,054	1	914,912	8,474,544	27,353,710
Interfund Transfers	(1,485,133)	1,455,015	0	0	0	30,118	0
Disbursements	(1,090,816)	(1,939,834)	(11,636,650)	0	(914,912)	0	(15,582,212)
Ending Balance (2014)	43,629,712	7,909,488	1,285,458	758	0	82,825,484	135,650,900
Receipts	4,525,739	236,759	12,515,254	1	938,624	123,698	18,340,075
Interfund Transfers	(1,807,515)	1,813,963	0	0	0	(6,447)	0
Disbursements	(497,644)	(2,062,676)	(11,893,779)	0	(938,624)	0	(15,392,723)
Ending Balance (2015)	45,850,293	7,897,534	1,906,933	758	0	82,942,735	138,598,253
Receipts	4,801,145	263,053	12,967,794	1	1,023,286	9,458,472	28,513,752
Interfund Transfers	(3,948,034)	3,912,103	0	0	0	35,930	0
Disbursements	(822,720)	(2,372,769)	(12,452,971)	0	(1,023,286)	0	(16,671,746)
Ending Balance (2016)	\$45,880,684	\$9,699,921	\$2,421,757	\$759	\$0	\$92,437,138	\$150,440,259

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	\$4,284,123	\$4,102,870	\$3,863,719	\$3,597,396
Transfers from Other Systems	431,438	342,880	1,383,938	254,785
Member Make Up Payments and Re-deposits	20,152	5,377	63,414	195,407
Member Payments from Rollovers	6,900	13,481	12,321	0
Investment Income Credited to Member Accounts	<u>58,533</u>	<u>61,131</u>	<u>71,439</u>	<u>46,985</u>
Sub Total	<u>4,801,145</u>	<u>4,525,739</u>	<u>5,394,831</u>	<u>4,094,572</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>263,053</u>	<u>236,759</u>	<u>234,367</u>	<u>245,683</u>
Pension Fund:				
3 (B) (c) Reimbursements from Other Systems	198,591	160,813	264,347	153,495
Received from Commonwealth for COLA and Survivor Benefits	228,873	150,437	106,053	234,085
Pension Fund Appropriation	12,527,730	12,181,169	11,942,341	11,433,741
Settlement of Workers' Compensation Claims	12,600	17,909	0	9,000
Recovery of 91A Overearnings	<u>0</u>	<u>4,926</u>	<u>22,313</u>	<u>0</u>
Sub Total	<u>12,967,794</u>	<u>12,515,254</u>	<u>12,335,054</u>	<u>11,830,321</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>1,023,286</u>	<u>938,624</u>	<u>914,912</u>	<u>839,766</u>
Pension Reserve Fund:				
Interest Not Refunded	2,509	7,976	15,430	4,590
Miscellaneous Income	9,650	562	0	85
Excess Investment Income	<u>9,446,314</u>	<u>115,161</u>	<u>8,459,115</u>	<u>14,463,666</u>
Sub Total	<u>9,458,472</u>	<u>123,698</u>	<u>8,474,544</u>	<u>14,468,341</u>
Total Receipts, Net	\$28,513,752	\$18,340,075	\$27,353,710	\$31,478,685

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	\$296,486	\$292,225	\$507,176	\$104,689
Transfers to Other Systems	<u>526,234</u>	<u>205,419</u>	<u>583,640</u>	<u>491,986</u>
Sub Total	<u>822,720</u>	<u>497,644</u>	<u>1,090,816</u>	<u>596,675</u>
Annuity Reserve Fund:				
Annuities Paid	2,299,052	2,062,676	1,939,834	1,867,546
Option B Refunds	<u>73,717</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,372,769</u>	<u>2,062,676</u>	<u>1,939,834</u>	<u>1,867,546</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	8,757,448	8,190,165	7,910,299	7,765,156
Survivorship Payments	513,039	519,552	537,956	519,133
Ordinary Disability Payments	62,641	62,010	61,313	39,676
Accidental Disability Payments	2,131,615	2,110,407	2,086,460	2,037,493
Accidental Death Payments	507,372	525,349	568,119	560,182
Section 101 Benefits	24,027	21,387	24,770	27,476
3 (8) (c) Reimbursements to Other Systems	<u>456,830</u>	<u>464,911</u>	<u>447,733</u>	<u>494,105</u>
Sub Total	<u>12,452,971</u>	<u>11,893,779</u>	<u>11,636,650</u>	<u>11,443,220</u>
Expense Fund:				
Board Member Stipend	13,250	12,000	12,000	13,120
Salaries	146,202	137,488	140,526	132,248
Legal Expenses	5,119	9,344	7,838	3,747
Travel Expenses	2,641	3,303	2,555	3,095
Administrative Expenses	32,903	26,831	18,823	26,804
Actuarial Services	22,000	5,000	16,000	0
Education and Training	1,200	1,350	1,240	1,530
Furniture and Equipment	585	2,480	0	0
Management Fees	757,071	694,526	662,242	605,578
Custodial Fees	0	5,725	10,375	7,250
Service Contracts	27,393	26,293	29,256	32,434
Fiduciary Insurance	11,797	11,159	10,933	10,836
Depreciation	<u>3,125</u>	<u>3,125</u>	<u>3,125</u>	<u>3,125</u>
Sub Total	<u>1,023,286</u>	<u>938,624</u>	<u>914,912</u>	<u>839,766</u>
Total Disbursements	<u>\$16,671,746</u>	<u>\$15,392,723</u>	<u>\$15,582,212</u>	<u>\$14,747,208</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Investment Income Received From:				
Cash	\$9,490	\$9,689	\$11,312	\$14,889
Short Term Investments	0	0	0	10,094
Equities	181	175	46	1,716
Pooled or Mutual Funds	<u>4,047,283</u>	<u>3,521,780</u>	<u>3,502,985</u>	<u>3,145,445</u>
Total Investment Income	<u>4,056,955</u>	<u>3,531,644</u>	<u>3,514,342</u>	<u>3,172,144</u>
Plus:				
Realized Gains	4,005,686	4,898,688	5,587,604	5,116,938
Unrealized Gains	<u>12,071,231</u>	<u>7,054,853</u>	<u>8,091,764</u>	<u>13,249,986</u>
Sub Total	<u>16,076,917</u>	<u>11,953,541</u>	<u>13,679,368</u>	<u>18,366,923</u>
Less:				
Realized Loss	(109,087)	(67,718)	(84,520)	(156,162)
Unrealized Loss	<u>(9,233,598)</u>	<u>(14,065,791)</u>	<u>(7,429,356)</u>	<u>(5,786,805)</u>
Sub Total	<u>(9,342,685)</u>	<u>(14,133,509)</u>	<u>(7,513,876)</u>	<u>(5,942,967)</u>
Net Investment Income	<u>10,791,187</u>	<u>1,351,676</u>	<u>9,679,834</u>	<u>15,596,101</u>
Income Required:				
Annuity Savings Fund	58,533	61,131	71,439	46,985
Annuity Reserve Fund	263,053	236,759	234,367	245,683
Military Service Fund	1	1	1	1
Expense Fund	<u>1,023,286</u>	<u>938,624</u>	<u>914,912</u>	<u>839,766</u>
Total Income Required	<u>1,344,873</u>	<u>1,236,515</u>	<u>1,220,719</u>	<u>1,132,435</u>
Net Investment Income	<u>10,791,187</u>	<u>1,351,676</u>	<u>9,679,834</u>	<u>15,596,101</u>
Less: Total Income Required	<u>1,344,873</u>	<u>1,236,515</u>	<u>1,220,719</u>	<u>1,132,435</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$9,446,314</u>	<u>\$115,161</u>	<u>\$8,459,115</u>	<u>\$14,463,666</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(Percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,584,302	1.7%
Pooled Alternative Investment Funds	122,707	0.1%
PRIT Core Fund	<u>147,645,759</u>	<u>98.2%</u>
Grand Total	<u>\$150,352,768</u>	<u>100.0%</u>

For the year ending December 31, 2016, the rate of return for the investments of the Salem Contributory Retirement System was 7.94%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Salem Contributory Retirement System averaged 8.73%. 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 Salem Contributory Retirement System was 8.03%.

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 Salem Contributory Retirement System has more than ninety-eight per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Salem Contributory Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address:

<https://www.mass.gov/service-details/salem-retirement-board-investment-regulations>

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Salem Contributory 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-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

December 8, 2011:

Membership

1. Employees of all member units of the Salem Retirement System who are regularly employed in a permanent position for a minimum of 20 hours per week and who earn a minimum of \$5,000 per year must become members of the System.
2. Employees of all units of the Salem Retirement System who are provisional, seasonal, or temporary, and who are regularly employed in a position for a minimum of 20 hours per week for a period of six consecutive months, and who earn a minimum of \$5,000 per year, must become members of the system at the conclusion of the six-month period. Such member shall be allowed to purchase prior non-membership service.
3. Employees of all member units of the Salem Retirement System who are employed less than 20 hours per week are ineligible for membership.
4. Employees and appointed officials of all member units of the Salem Retirement System who earn less than \$5,000 per year are ineligible for membership.
5. Employees who do not qualify for membership in the Salem Retirement system and later become members in another Chapter 32 retirement system and then seek to "buyback" their prior part-time service, Salem Retirement will not accept liability for this service.

December 8, 2011:

Creditable Service

1. Members of the Salem Retirement System who earn less than \$5,000 per year and who established membership prior to July 1, 2009 shall continue to be members of the system. The regular compensation of such member shall be subject to retirement withholdings, but such member shall not accrue creditable service after July 1, 2009, except that such member who on said date was serving in an elected or appointed term of office or employment shall continue to be credited with service until the expiration of his term of office or employment, or until July 1, 2012, whichever first occurs.
2. Members of the Salem Retirement System shall be credited with one year of service for each year of employment of not less than 20 hours per week, or yearly proportion thereof. If the members' hours of employment fall below 20 hours per week, the member shall be credited with one-half year of creditable service, or yearly proportion thereof.
3. It is up to the applicant to provide all essential information to the Retirement Board for all creditable service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

January 19, 2011

Buyback Policy

The policy of the Salem Contributory Retirement Board in regards to buybacks, makeup and veteran's credit is as follows:

FOR MILITARY CREDIT: This payment is made, when necessary, as a lump sum payment before retirement by either a cash payment or from a deferred comp plan.

BUYBACK OF PREVIOUS REFUNDS: Lump sum payment at any time with interest.

MAKEUP FOR PREVIOUS SERVICE FOR WHICH NO DEDUCTIONS WERE EVER TAKEN: Lump sum payment at any time with interest.

All members are encouraged to make deductions to a deferred compensation plan so that their payments will be pretax.

The Retirement Board does not accept payment plans.

March, 27, 2014

Miscellaneous

Correction of Errors under G.L.c. 32, 20(5)(c)(2)

In all cases of correction of an error by the Salem Retirement Board of an underpayment or non-payment of a pension or benefit to a member or beneficiary of the Salem Retirement System which results in a onetime retroactive payment of benefits, such payment shall include interest for such period of underpayment or non-payment at the rate annually determined for such period by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

In all cases of correction of an error by the Salem Retirement Board of an overpayment of a pension or benefit to a member or beneficiary of the Salem Retirement System, the amount of overpayment shall be due from the member or beneficiary, along with interest for said period of overpayment at the rate annually determined by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

Pursuant to the judgment of the Supreme Judicial Court in *Herrick v. Essex Regional Retirement Board*, 465 Mass. 801 (2013) and PERAC Memorandum #32, 2013, said interest shall be deemed to be the actuarial equivalent of the adjustment to the pension or benefit as set forth in G.L. c. 32, § 20(5)(c)(2).

Travel Regulations

The Salem Contributory Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <https://www.mass.gov/service-details/salem-retirement-board-travel-regulations>

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 Director of Finance 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: Sarah Stanton, Chairperson

Appointed Member: Dominick Pangallo Term Expires: 04/01/2019

Elected Member: Sarah M. Hayes Term Expires: 06/03/2019

Elected Member: Marcia A. Pelletier Term Expires: 12/03/2020

Appointed Member: Robert T. Lutts Term Expires: 03/24/2019

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 The Segal Company as of January 1, 2016.

The actuarial liability for active members was	\$140,901,672
The actuarial liability for inactive participants	4,007,966
The actuarial liability for retired members was	<u>124,374,215</u>
The total actuarial liability was	\$269,283,853
System assets as of that date were (actuarial value)	<u>143,576,242</u>
The unfunded actuarial liability was	<u>\$125,707,611</u>
The ratio of system's assets to total actuarial liability was	53.3%
As of that date the total covered employee payroll was	\$45,841,256

The normal cost for employees on that date was 9.52% of payroll

The normal cost for the employer was 5.62% of payroll

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

Investment Return: 7.50% per annum
 Rate of Salary Increase: Varies by Group and Service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

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)
1/1/2016	\$143,576,242	\$269,283,853	\$125,707,611	53.3%	\$45,841,256	274.2%
1/1/2014	\$120,440,960	\$237,524,910	\$117,083,950	50.7%	\$40,399,678	289.8%
1/1/2012	\$106,806,161	\$214,346,363	\$107,540,202	49.8%	\$37,076,549	290.0%
1/1/2010	\$100,046,731	\$193,470,036	\$93,423,305	51.7%	\$34,583,002	270.1%
1/1/2008	\$99,998,471	\$179,382,299	\$79,383,828	55.8%	\$34,410,002	230.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	15	21	23	13	23	19	14	21	24	38
Ordinary Disability	0	1	3	0	0	0	0	0	0	0
Accidental Disability	3	2	2	2	0	2	0	1	1	2
Total Retirements	18	24	28	15	23	21	14	22	25	40
Total Retirees, Beneficiaries and Survivors	625	618	588	578	579	563	566	563	565	577
Total Active Members	867	882	845	878	870	868	902	992	1,010	1,036
Pension Payments										
Superannuation	\$6,736,404	\$6,649,104	\$7,075,214	\$7,241,393	\$7,531,977	\$7,518,162	\$7,765,156	\$7,910,299	\$8,190,165	\$8,757,448
Survivor/Beneficiary Payments	443,037	450,578	446,266	469,611	487,879	623,406	519,133	537,956	519,552	513,039
Ordinary Disability	101,586	82,859	91,766	75,316	59,108	59,174	39,676	61,313	62,010	62,641
Accidental Disability	1,757,609	1,790,298	1,859,607	1,893,133	1,970,652	2,057,865	2,037,493	2,086,460	2,110,407	2,131,615
Other	892,554	1,009,837	1,127,952	949,416	975,868	959,945	1,081,763	1,040,622	1,011,646	988,229
Total Payments for Year	<u>\$9,931,190</u>	<u>\$9,982,676</u>	<u>\$10,600,805</u>	<u>\$10,628,869</u>	<u>\$11,025,484</u>	<u>\$11,218,552</u>	<u>\$11,443,220</u>	<u>\$11,636,650</u>	<u>\$11,893,779</u>	<u>\$12,452,971</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - PREMISES OWNED AND OCCUPIED

The Salem Contributory Retirement Board is located in a commercial condominium unit situated in downtown Salem. The unit was acquired by purchase in April, 2005. The unit was acquired after leasing the same unit for the period from 1999 to March, 2005. The original cost was \$125,000. The original purchase was charged directly to the expense fund in calendar year 2005. In 2009, the purchase was capitalized to comply with the provisions of GASB #34. The useful life of this asset is estimated to be forty years. The unit is being depreciated using the straight line method over this period. The annual depreciation associated with this office condominium is \$3,125. The costs of normal maintenance and repairs that do not add to the value or materially extend its useful life are not capitalized. There is no mortgage or other short term or long term debt associated with this acquisition. The retirement board conducts the normal course of its administrative activities, counsels' members and retirees, maintains the records and holds the required regular public Board meetings from this location.

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