

STATE EMPLOYEES'
RETIREMENT SYSTEM
AUDIT REPORT
JUL. 1, 2013 - JUN. 30, 2017



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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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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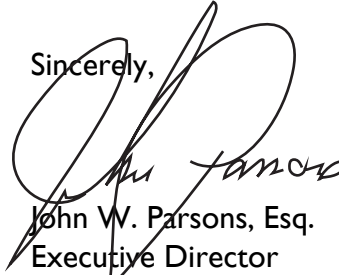
March 9, 2020

The Public Employee Retirement Administration Commission has completed an examination of the State Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from July 1, 2013 to June 30, 2017. 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.

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

In closing, I acknowledge the work of examiners Elaine Pursley, George Nsia and Junior Yanga who conducted this examination, and express appreciation to the Board and staff for their courtesy and cooperation.

Sincerely,



John W. Parsons, Esq.
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Accounts Receivable (AR) as of June 30, 2017:

There are two issues with the AR's as of the end of the audit period. First, there are three significant AR's that were not recorded to the General Ledger (GL) as of June 30, 2017.

1. The Middlesex County Retirement Board (MCRB) and State Retirement Board (SRB) ceased to send G.L. c. 32, §3(8)(c) payments to each other many years ago. The SRB has determined that they owe MCRB a total of \$27M for combined §3(8)(c) and reimbursable COLA payments. The SRB has determined that MCRB owes SRB \$34M. The net result is approximately \$7M that MCRB owes to SRB as of June 30, 2017.
2. The SRB has determined that they have made reimbursable COLA overpayments to or through local retirement boards and have sought return of these overpayments. We noted two major overpayments due: the Boston Retirement Board and the City of Boston combined owe the SRB \$14M and the City of Lawrence owes the SRB \$1.8M as of June 30, 2017.
3. The Optional Retirement Program (ORP) is an alternative retirement plan for employees at the Commonwealth's public institutions of higher education. Section 60 of Chapter 176 of the Acts of 2011 allowed eligible employees to transfer from the ORP to the SRB, effective May 1, 2014. There are assets remaining in the ORP accounts that have not yet been transferred to the SRB. These assets cannot be transferred in one lump sum but may be transferred in installments over a period of time. There was approximately \$66M of ORP assets not yet transferred to the SRB as of June 30, 2017.

Second, we noted that there was \$9M in AR from FY16 that is still outstanding as of June 30, 2017. This is related to amounts due to SRB from non-state quasi-independent entities for employer pension obligations pursuant to c. 32, §28(4)(c) calculated from January 1, 2013 through June 30, 2017. The SRB filed legislation in January 2019 regarding the collection of this money.

Recommendation: The three receivables not currently on the GL need to be recorded. The SRB should enter into a payment schedule with any Retirement Boards or local communities who owe them money. We noted that the City of Lawrence has already entered into a payment agreement with the SRB.

The SRB has provided a possible strategy to transfer the ORP assets over nine annual installments plus one final payment. This transfer schedule should be finalized and implemented.

The amounts due under §28(4)(c) must be collected pursuant to the legislation or otherwise.

Board Response:

In addition to the information provided below, based on PERAC's recommendation the Massachusetts State Retirement Board (MSRB) recorded the receivables in FY2019 for prior years for §3(8)(c) payments (Middlesex Country Retirement Board), COLA Reimbursements (City of Boston and City of Lawrence) and the Optional Retirement Program ("ORP").

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

MCRB:	\$8.7M
City of Boston and Boston Retirement	\$7.3M
City of Lawrence:	\$1.7M
ORP Assets:	\$52.9M

Additional detail regarding each of the above-noted items is listed in Appendix A.

2. Cash Reconciliations

There are six cash accounts on the SRB's GL, but cash reconciliations were performed for only two of those accounts – BNY Mellon Lockbox GL #1042 and Massachusetts Municipal Depository Trust (MMDT) PRIT Payments & Receipts GL #1060 - for the audit period.

For the other four cash accounts, the SRB has an internal policy that states they will compare the GL balances to the Massachusetts Management Accounting and Reporting System (MMARS) balances monthly, but this is not being done.

Recommendation: The SRB must prepare cash reconciliations for cash accounts GL #1040, 1050, 1062 and 1063 to MMARS on a monthly basis.

Board Response:

MSRB is committed to this task and fully recognizes the importance of the matter. This was the first audit that PERAC commented on this practice.

In summary, account reconciliations have been prepared for all cash accounts from FY2014 through FY2019 on an annual basis. It's important to mention that the MSRB's lockbox account (GL 1042, annuity receipts) with BNY Mellon and the Massachusetts Municipal Depository Trust (MMDT) for the PRIT Payments and Receipts (GL 1060) have been reconciled monthly and this information was made available to the audit team. Further, a monthly reconciliation of MSRB's GL to the Commonwealth's MMARS GL starting with FY2020 has been implemented.

A listing of action steps taken and results can be found in Appendix A.

3. Retirement Allowance Calculations

It is the SRB's policy to use annual rates of regular compensation provided by employers to calculate retirement allowances. In addition, the SRB compares the information provided to retirement deductions taken for reasonableness. PERAC was provided with payroll data to test calculations during the audit period. We noted differences between the annual rates used and the actual payrolls. This resulted in both overpayments and underpayments of retirement allowances.

Other issues noted included the following:

- The UMass payroll did not include shift differentials and other supplemental earnings in regular compensation.
- A retiree was not receiving a veteran allowance of \$300 per year.
- The annual rate of regular compensation for the last 12 months was not used in the retirement allowance calculations for two accidental disability retirees.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The SRB is aware of the UMass payroll not withholding retirement from certain earnings such as differential pay. The SRB is working to ensure such specialty earnings are included in regular compensation. The SRB needs to review the retirement allowance calculations found with differences and make all necessary corrections.

Board Response:

UMass

After determining that UMass had not taken the required retirement deductions from several types of specialty pay issued to eligible employees, the MSRB worked with UMass over the course of 2018 to identify the affected active employees and develop an action plan. Regular updates were provided to the MSRB Board. The most common type of specialty pay was night and weekend differential, but also includes types such as on-call pay and certain holiday pay.

In collaboration with UMass notice was provided to the affected active employees and the employee representative unions. Payroll deductions were initiated in January 2019, and billing for retro-active deductions were issued at that time. Repayments are in process from the employees for the outstanding deductions.

The MSRB regularly provides education and outreach efforts to employer payroll offices. It participates in Commonwealth wide Payroll User Group meetings which includes representatives from statewide agencies which participate in the MSERS.

4. Modified §3(8)(c) Reimbursements Received from Other Boards

The audit found that 17 of the 21 (81%) sampled retirees with modified §3(8)(c) reimbursements from other Boards were overbilled by the SRB in 2017 (for the calendar year 2016) by approximately \$88,000. The PERAC letters with the modified amounts were all dated in 2015. The SRB has revised §3(8)(c) amounts to reflect the correct balances due in the 2017 and 2018 billings for these retirees.

Recommendation: The SRB should continue to update their §3(8)(c) billings to other Boards to reflect all modifications as directed by PERAC on a timely basis and refund any overpayments received from the other Boards.

Board Response:

It was virtually impossible to adjust billing amounts in our former forty-year-old legacy system which was utilized for the billing through 2016 before the MSRB went live with its MARIS software. The MSRB designed MARIS to allow for all adjustments and began making corrections at go-live in January 2017. The MSRB hired temporary staff to continue review and correction of records. The MSRB has now allocated permanent staff to work on section 3(8)(c) billing. We continue to work with any retirement boards to which funds are owed.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

5. Continuing Recognition of the Massachusetts Turnpike Authority as a Separate Component Unit:

The Massachusetts Turnpike Authority Employees' Retirement System assets were transferred to the State Treasurer and management of the System was transferred to the State Retirement Board (SRB) pursuant to Chapter 25, section 159 of the Acts of 2009, as amended by Chapter 26 of the Acts of 2009, on November 1, 2009. The former Massachusetts Turnpike Authority Employees' Retirement Board was abolished but the system was not. The State Treasurer and the SRB retain the accounting in distinct GLs. After nine years, separate fund balances, separate investment portfolios, separate management and custodial fees are still maintained. This method of operations and financial reporting is duplicative and inefficient for the SRB.

This issue was previously reported in our audit of the State Employees' Retirement System for the period January 1, 2010 through June 30, 2013.

Recommendation: The investment portfolio and members' cumulative accounts should be merged and consolidated into the State Retirement's system. The SRB should continue with their legislative efforts to remedy this issue.

Board Response:

MSRB supports PERAC's recommendation and has regularly filed legislation over the past several years to merge and consolidate the investment portfolio and members' accounts. To date, no final legislative action has been approved. Until such time, MSRB will continue to manage the MTAERS records and accounts separately.

Managing the two entities separately is duplicative and inefficient. It's noteworthy to mention that the Office of Comptroller records the MSERS and MTAERS as one account which further complicates the reconciling process to MMARS of the two separate MSRB accounts.

FINAL DETERMINATION:

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

CONSOLIDATED STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF JUNE 30,			
	2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	\$120,921,239	\$77,225,706	\$55,280,736	\$52,178,286
PRIT Cash Fund	51,143,237	55,418,763	22,612,334	18,848,071
PRIT Core Fund	25,977,474,298	23,606,120,577	23,957,574,561	23,863,319,600
Prepaid Expenses	22,306	35,479	20,479	9,722
Accounts Receivable	29,441,036	136,254,804	26,509,301	5,345,777
Accounts Payable	<u>(20,340,165)</u>	<u>(21,634,006)</u>	<u>(17,573,636)</u>	<u>(4,209,708)</u>
Total	<u>\$26,158,661,951</u>	<u>\$23,853,421,323</u>	<u>\$24,044,423,775</u>	<u>\$23,935,491,748</u>
Fund Balances:				
Annuity Savings Fund	\$6,137,003,838	\$5,878,249,156	\$5,852,293,085	\$5,683,481,590
Annuity Reserve Fund	1,973,056,914	1,927,360,488	1,597,583,421	1,543,995,448
Pension Fund	0	0	0	0
Military Service Fund	34,121	40,148	43,214	43,618
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>18,048,567,078</u>	<u>16,047,771,531</u>	<u>16,594,504,055</u>	<u>16,707,971,092</u>
Total	<u>\$26,158,661,951</u>	<u>\$23,853,421,323</u>	<u>\$24,044,423,775</u>	<u>\$23,935,491,748</u>

CONSOLIDATED 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 July 1, 2013	\$5,528,632,708	\$1,506,929,855	\$0	\$48,157	\$0	\$14,056,285,797	\$21,091,896,517
Receipts	519,665,735	26,586,439	615,160,135	22	148,620,154	3,512,707,458	4,822,739,943
Interfund Transfers	(299,604,424)	304,972,387	855,658,761	(4,560)	0	(861,022,163)	0
Disbursements	(65,212,429)	(294,493,233)	(1,470,818,896)	0	(148,620,154)	0	(1,979,144,712)
Ending Balance June 30, 2014	5,683,481,590	1,543,995,448	0	43,618	0	16,707,971,092	23,935,491,748
Receipts	577,455,683	50,172,159	689,860,534	43	159,175,019	728,052,162	2,204,715,601
Interfund Transfers	(345,111,544)	322,899,997	863,731,194	(448)	0	(841,519,199)	0
Disbursements	(63,532,645)	(319,484,183)	(1,553,591,728)	0	(159,175,019)	0	(2,095,783,574)
Ending Balance June 30, 2015	5,852,293,085	1,597,583,421	0	43,214	0	16,594,504,055	24,044,423,775
Receipts	752,282,049	53,808,372	768,454,649	42	161,861,368	408,547,730	2,144,954,209
Interfund Transfers	(656,942,392)	646,910,508	965,315,246	(3,108)	0	(955,280,254)	0
Disbursements	(69,383,585)	(370,941,813)	(1,733,769,895)	0	(161,861,368)	0	(2,335,956,661)
Ending Balance June 30, 2016	5,878,249,156	1,927,360,488	0	40,148	0	16,047,771,531	23,853,421,323
Receipts	708,272,292	61,758,154	810,788,041	40	177,624,890	2,977,773,585	4,736,217,002
Interfund Transfers	(384,601,480)	379,375,141	982,210,444	(6,067)	0	(976,978,038)	0
Disbursements	(64,916,129)	(395,436,869)	(1,792,998,486)	0	(177,624,890)	0	(2,430,976,374)
Ending Balance June 30, 2017	\$6,137,003,838	\$1,973,056,914	\$0	\$34,121	\$0	\$18,048,567,078	\$26,158,661,951

CONSOLIDATED STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	\$604,772,300	\$591,947,963	\$549,492,686	\$501,105,668
Transfers from Other Systems	11,751,773	15,966,398	13,129,721	8,572,617
Member Make Up Payments and Re-deposits	5,442,068	5,575,694	3,005,252	3,118,486
Member Payments from Rollovers	80,950,848	133,296,823	6,455,355	4,418,200
Investment Income Credited to Member Accounts	<u>5,355,304</u>	<u>5,495,171</u>	<u>5,372,669</u>	<u>2,450,765</u>
Sub Total	<u>708,272,292</u>	<u>752,282,049</u>	<u>577,455,683</u>	<u>519,665,735</u>
Annuity Reserve Fund:				
Recovery of Annuity from Reinstatement	0	16,056	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>61,758,154</u>	<u>53,792,317</u>	<u>50,172,159</u>	<u>26,586,439</u>
Sub Total	<u>61,758,154</u>	<u>53,808,372</u>	<u>50,172,159</u>	<u>26,586,439</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	26,167,732	48,704,802	35,144,917	20,634,683
Pension Fund Appropriation	784,079,424	719,083,000	653,985,000	593,932,000
Settlement of Workers' Compensation Claims	491,229	632,533	655,462	475,876
Recovery of Pension from Reinstatement	0	14,176	0	0
Recovery of 91A Overearnings	<u>49,657</u>	<u>20,138</u>	<u>75,156</u>	<u>117,576</u>
Sub Total	<u>810,788,041</u>	<u>768,454,649</u>	<u>689,860,534</u>	<u>615,160,135</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>40</u>	<u>42</u>	<u>43</u>	<u>22</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>177,624,890</u>	<u>161,861,368</u>	<u>159,175,019</u>	<u>148,620,154</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	97,195,483	72,717,038	5,652,392	5,509,350
Interest Not Refunded	550,230	311,110	377,710	970,332
Miscellaneous Income	2,469,454	11,054,279	10,179,899	10,012,277
Excess Investment Income	<u>2,877,558,417</u>	<u>324,465,303</u>	<u>711,842,162</u>	<u>3,496,215,499</u>
Sub Total	<u>2,977,773,585</u>	<u>408,547,730</u>	<u>728,052,162</u>	<u>3,512,707,458</u>
Total Receipts, Net	<u>\$4,736,217,002</u>	<u>\$2,144,954,209</u>	<u>\$2,204,715,601</u>	<u>\$4,822,739,943</u>

CONSOLIDATED STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	\$57,823,490	\$66,442,593	\$59,244,319	\$62,634,974
Transfers to Other Systems	<u>7,092,640</u>	<u>2,940,992</u>	<u>4,288,326</u>	<u>2,577,455</u>
Sub Total	<u>64,916,129</u>	<u>69,383,585</u>	<u>63,532,645</u>	<u>65,212,429</u>
Annuity Reserve Fund:				
Annuities Paid	392,519,810	366,757,289	314,812,829	290,842,312
Option B Refunds	<u>2,917,059</u>	<u>4,184,524</u>	<u>4,671,354</u>	<u>3,650,921</u>
Sub Total	<u>395,436,869</u>	<u>370,941,813</u>	<u>319,484,183</u>	<u>294,493,233</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	1,511,924,790	1,428,908,410	1,268,709,170	1,198,427,065
Survivorship Payments	46,458,351	81,001,767	77,074,850	73,159,466
Ordinary Disability Payments	13,535,808	10,567,209	10,715,567	10,262,234
Accidental Disability Payments	126,423,591	116,039,267	112,215,040	108,247,432
Accidental Death Payments	29,518,315	10,612,619	10,815,626	10,787,554
Section 101 Benefits	5,231,144	5,117,604	5,119,227	5,061,340
3 (8) (c) Reimbursements to Other Systems	15,329,781	16,262,413	11,921,115	11,696,185
State Reimbursable COLAs Paid	18,753,564	17,573,140	22,019,697	33,248,140
3 (8) (c) Reimbursements to General Fund	<u>25,823,140</u>	<u>47,687,463</u>	<u>35,001,437</u>	<u>19,929,480</u>
Sub Total	<u>1,792,998,486</u>	<u>1,733,769,895</u>	<u>1,553,591,728</u>	<u>1,470,818,896</u>
Expense Fund:				
Salaries	5,958,426	5,092,942	5,177,920	4,866,869
Legal Expenses	42,450	23,435	75,780	45,038
Travel Expenses	20,265	12,371	12,373	18,359
Administrative Expenses	650,187	767,024	625,367	535,441
Professional Services	17,618,781	8,661,895	4,999,784	2,515,143
Furniture and Equipment	134,462	230,713	134,456	117,128
Management Fees	119,341,313	108,450,748	112,832,459	112,563,009
Custodial Fees	15,323,383	14,223,223	12,842,116	11,843,990
Rent Expenses	396,294	396,014	387,763	368,833
Service Contracts	595,666	445,773	546,517	501,281
Fiduciary Insurance	43,092	41,192	41,041	40,807
Higher Ed Optional Retirement Program	13,500,573	18,563,555	17,534,671	11,508,323
To Fund PERAC Operations	<u>4,000,000</u>	<u>4,952,481</u>	<u>3,964,772</u>	<u>3,695,935</u>
Sub Total	<u>177,624,890</u>	<u>161,861,368</u>	<u>159,175,019</u>	<u>148,620,154</u>
Total Disbursements	<u>\$2,430,976,374</u>	<u>\$2,335,956,661</u>	<u>\$2,095,783,574</u>	<u>\$1,979,144,712</u>

CONSOLIDATED INVESTMENT INCOME

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Investment Income Received From:				
Cash	\$224,014	\$107,672	\$0	\$0
Pooled or Mutual Funds	<u>718,224,099</u>	<u>646,600,473</u>	<u>614,597,660</u>	<u>676,369,138</u>
Total Investment Income	<u>718,448,112</u>	<u>646,708,145</u>	<u>614,597,660</u>	<u>676,369,138</u>
Plus:				
Realized Gains	958,723,164	571,845,503	1,012,395,737	1,161,789,447
Unrealized Gains	<u>2,188,921,618</u>	<u>1,867,360,689</u>	<u>908,508,343</u>	<u>2,762,673,720</u>
Sub Total	<u>3,147,644,782</u>	<u>2,439,206,192</u>	<u>1,920,904,079</u>	<u>3,924,463,166</u>
Less:				
Realized Loss	0	(24,346,873)	0	0
Unrealized Loss	<u>(743,796,089)</u>	<u>(2,515,953,263)</u>	<u>(1,608,939,687)</u>	<u>(926,959,426)</u>
Sub Total	<u>(743,796,089)</u>	<u>(2,540,300,137)</u>	<u>(1,608,939,687)</u>	<u>(926,959,426)</u>
Net Investment Income	<u>3,122,296,805</u>	<u>545,614,200</u>	<u>926,562,053</u>	<u>3,673,872,879</u>
Income Required:				
Annuity Savings Fund	5,355,304	5,495,171	5,372,669	2,450,765
Annuity Reserve Fund	61,758,154	53,792,317	50,172,159	26,586,439
Military Service Fund	40	42	43	22
Expense Fund	<u>177,624,890</u>	<u>161,861,368</u>	<u>159,175,019</u>	<u>148,620,154</u>
Total Income Required	<u>244,738,388</u>	<u>221,148,897</u>	<u>214,719,891</u>	<u>177,657,380</u>
Net Investment Income	<u>3,122,296,805</u>	<u>545,614,200</u>	<u>926,562,053</u>	<u>3,673,872,879</u>
Less: Total Income Required	<u>244,738,388</u>	<u>221,148,897</u>	<u>214,719,891</u>	<u>177,657,380</u>
Excess Income To The Pension Reserve Fund	<u>\$2,877,558,417</u>	<u>\$324,465,303</u>	<u>\$711,842,162</u>	<u>\$3,496,215,499</u>

STATE EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF JUNE 30,			
	2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	\$119,341,129	\$76,454,433	\$54,781,621	\$51,267,437
PRIT Cash Fund	51,039,810	55,128,491	22,408,386	18,791,719
PRIT Core Fund	25,803,440,739	23,436,011,689	23,773,734,016	23,669,094,186
Prepaid Expenses	22,306	35,479	20,479	9,722
Accounts Receivable	29,441,036	135,919,864	26,509,301	5,345,777
Accounts Payable	<u>(20,199,399)</u>	<u>(21,519,984)</u>	<u>(17,425,798)</u>	<u>(4,177,074)</u>
Total	<u>\$25,983,085,621</u>	<u>\$23,682,029,970</u>	<u>\$23,860,028,005</u>	<u>\$23,740,331,767</u>
Fund Balances:				
Annuity Savings Fund	\$6,095,777,012	\$5,828,980,052	\$5,793,347,002	\$5,622,551,534
Annuity Reserve Fund	1,939,304,078	1,899,605,960	1,577,552,745	1,523,420,717
Pension Fund	0	0	0	0
Military Service Fund	33,564	39,592	42,658	43,063
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>17,947,970,967</u>	<u>15,953,404,367</u>	<u>16,489,085,600</u>	<u>16,594,316,454</u>
Total	<u>\$25,983,085,621</u>	<u>\$23,682,029,970</u>	<u>\$23,860,028,005</u>	<u>\$23,740,331,767</u>

STATE EMPLOYEES' RETIREMENT SYSTEM 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 July 1, 2013	\$5,465,476,698	\$1,485,995,972	\$0	\$47,602	\$0	\$13,958,116,655	\$20,909,636,928
Receipts	519,633,294	26,227,838	614,438,282	21	147,589,546	3,483,591,442	4,791,480,423
Interfund Transfers	(297,651,384)	303,019,347	842,028,241	(4,560)	0	(847,391,644)	0
Disbursements	(64,907,074)	(291,822,440)	(1,456,466,523)	0	(147,589,546)	0	(1,960,785,584)
Ending Balance June 30, 2014	5,622,551,534	1,523,420,717	0	43,063	0	16,594,316,454	23,740,331,767
Receipts	577,393,259	49,525,020	689,694,804	43	158,186,689	722,420,090	2,197,219,906
Interfund Transfers	(343,627,250)	321,415,703	849,862,939	(448)	0	(827,650,944)	0
Disbursements	(62,970,540)	(316,808,695)	(1,539,557,743)	0	(158,186,689)	0	(2,077,523,668)
Ending Balance June 30, 2015	5,793,347,002	1,577,552,745	0	42,658	0	16,489,085,600	23,860,028,005
Receipts	752,222,114	53,128,575	767,437,310	42	160,957,092	406,388,257	2,140,133,389
Interfund Transfers	(647,400,956)	637,369,072	952,104,482	(3,108)	0	(942,069,490)	0
Disbursements	(69,188,108)	(368,444,431)	(1,719,541,792)	0	(160,957,092)	0	(2,318,131,424)
Ending Balance June 30, 2016	5,828,980,052	1,899,605,960	0	39,592	0	15,953,404,367	23,682,029,970
Receipts	708,222,279	60,907,890	810,443,450	40	176,698,210	2,958,057,299	4,714,329,167
Interfund Transfers	(377,012,531)	371,786,192	968,723,106	(6,067)	0	(963,490,699)	0
Disbursements	(64,412,787)	(392,995,964)	(1,779,166,555)	0	(176,698,210)	0	(2,413,273,516)
Ending Balance June 30, 2017	\$6,095,777,012	\$1,939,304,078	\$0	\$33,564	\$0	\$17,947,970,967	\$25,983,085,621

STATE EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	\$604,772,300	\$591,947,963	\$549,492,686	\$501,105,668
Transfers from Other Systems	11,751,773	15,966,398	13,129,721	8,572,617
Member Make Up Payments and Re-deposits	5,442,068	5,575,694	3,005,252	3,118,486
Member Payments from Rollovers	80,950,848	133,296,823	6,455,355	4,418,200
Investment Income Credited to Member Accounts	<u>5,305,291</u>	<u>5,435,236</u>	<u>5,310,245</u>	<u>2,418,323</u>
Sub Total	<u>708,222,279</u>	<u>752,222,114</u>	<u>577,393,259</u>	<u>519,633,294</u>
Annuity Reserve Fund:				
Recovery of Annuity from Reinstatement	0	16,056	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>60,907,890</u>	<u>53,112,519</u>	<u>49,525,020</u>	<u>26,227,838</u>
Sub Total	<u>60,907,890</u>	<u>53,128,575</u>	<u>49,525,020</u>	<u>26,227,838</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	25,823,140	47,687,463	35,001,437	19,929,480
Pension Fund Appropriation	784,079,424	719,083,000	653,985,000	593,932,000
Settlement of Workers' Compensation Claims	491,229	632,533	633,212	459,226
Recovery of Pension from Reinstatement	0	14,176	0	0
Recovery of 91A Overearnings	<u>49,657</u>	<u>20,138</u>	<u>75,156</u>	<u>117,576</u>
Sub Total	<u>810,443,450</u>	<u>767,437,310</u>	<u>689,694,804</u>	<u>614,438,282</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>40</u>	<u>42</u>	<u>43</u>	<u>21</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>176,698,210</u>	<u>160,957,092</u>	<u>158,186,689</u>	<u>147,589,546</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	97,195,483	72,717,038	5,652,392	5,509,350
Interest Not Refunded	550,230	311,110	377,710	970,332
Miscellaneous Income	2,465,883	11,040,948	10,155,328	10,006,448
Excess Investment Income	<u>2,857,845,702</u>	<u>322,319,161</u>	<u>706,234,660</u>	<u>3,467,105,311</u>
Sub Total	<u>2,958,057,299</u>	<u>406,388,257</u>	<u>722,420,090</u>	<u>3,483,591,442</u>
Total Receipts, Net	<u>\$4,714,329,167</u>	<u>\$2,140,133,389</u>	<u>\$2,197,219,906</u>	<u>\$4,791,480,423</u>

STATE EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	\$57,320,147	\$66,247,116	\$58,682,214	\$62,329,619
Transfers to Other Systems	<u>7,092,640</u>	<u>2,940,992</u>	<u>4,288,326</u>	<u>2,577,455</u>
Sub Total	<u>64,412,787</u>	<u>69,188,108</u>	<u>62,970,540</u>	<u>64,907,074</u>
Annuity Reserve Fund:				
Annuities Paid	390,078,905	364,259,908	312,270,468	288,216,998
Option B Refunds	<u>2,917,059</u>	<u>4,184,524</u>	<u>4,538,228</u>	<u>3,605,443</u>
Sub Total	<u>392,995,964</u>	<u>368,444,431</u>	<u>316,808,695</u>	<u>291,822,440</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	1,499,977,274	1,416,868,914	1,256,752,375	1,186,231,502
Survivorship Payments	46,092,081	80,320,966	76,350,268	72,416,903
Ordinary Disability Payments	13,429,094	10,478,394	10,614,830	10,158,073
Accidental Disability Payments	125,426,887	115,063,984	111,160,104	107,148,728
Accidental Death Payments	29,285,597	10,523,423	10,713,948	10,678,061
Section 101 Benefits	5,189,903	5,074,592	5,071,101	5,009,968
3 (8) (c) Reimbursements to Other Systems	15,189,015	15,950,915	11,873,984	11,645,668
State Reimbursable COLAs Paid	18,753,564	17,573,140	22,019,697	33,248,140
3 (8) (c) Reimbursements to General Fund	<u>25,823,140</u>	<u>47,687,463</u>	<u>35,001,437</u>	<u>19,929,480</u>
Sub Total	<u>1,779,166,555</u>	<u>1,719,541,792</u>	<u>1,539,557,743</u>	<u>1,456,466,523</u>
Expense Fund:				
Salaries	5,958,426	5,092,942	5,177,920	4,866,869
Legal Expenses	42,450	23,435	75,780	45,038
Travel Expenses	20,265	12,371	12,373	18,359
Administrative Expenses	650,187	767,024	625,367	535,441
Professional Services	17,618,781	8,661,895	4,999,784	2,515,143
Furniture and Equipment	134,462	230,713	134,456	117,128
Management Fees	118,520,208	107,651,424	111,945,134	111,630,565
Custodial Fees	15,217,808	14,118,271	12,741,112	11,745,826
Rent Expenses	396,294	396,014	387,763	368,833
Service Contracts	595,666	445,773	546,517	501,281
Fiduciary Insurance	43,092	41,192	41,041	40,807
Higher Ed Optional Retirement Program	13,500,573	18,563,555	17,534,671	11,508,323
To Fund PERAC Operations	<u>4,000,000</u>	<u>4,952,481</u>	<u>3,964,772</u>	<u>3,695,935</u>
Sub Total	<u>176,698,210</u>	<u>160,957,092</u>	<u>158,186,689</u>	<u>147,589,546</u>
Total Disbursements	<u>\$2,413,273,516</u>	<u>\$2,318,131,424</u>	<u>\$2,077,523,668</u>	<u>\$1,960,785,584</u>

STATE EMPLOYEES' RETIREMENT SYSTEM INVESTMENT INCOME

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Investment Income Received From:				
Cash	\$224,014	\$107,672	\$0	\$0
Pooled or Mutual Funds	<u>713,270,898</u>	<u>641,828,525</u>	<u>609,760,640</u>	<u>670,764,842</u>
Total Investment Income	<u>713,494,911</u>	<u>641,936,197</u>	<u>609,760,640</u>	<u>670,764,842</u>
Plus:				
Realized Gains	952,112,891	567,618,507	1,004,425,057	1,152,153,894
Unrealized Gains	<u>2,173,754,005</u>	<u>1,853,585,932</u>	<u>901,307,086</u>	<u>2,739,616,812</u>
Sub Total	<u>3,125,866,896</u>	<u>2,421,204,439</u>	<u>1,905,732,143</u>	<u>3,891,770,706</u>
Less:				
Realized Loss	0	(24,165,711)	0	0
Unrealized Loss	<u>(738,604,674)</u>	<u>(2,497,150,875)</u>	<u>(1,596,236,126)</u>	<u>(919,194,508)</u>
Sub Total	<u>(738,604,674)</u>	<u>(2,521,316,587)</u>	<u>(1,596,236,126)</u>	<u>(919,194,508)</u>
Net Investment Income	<u>3,100,757,133</u>	<u>541,824,049</u>	<u>919,256,657</u>	<u>3,643,341,040</u>
Income Required:				
Annuity Savings Fund	5,305,291	5,435,236	5,310,245	2,418,323
Annuity Reserve Fund	60,907,890	53,112,519	49,525,020	26,227,838
Military Service Fund	40	42	43	21
Expense Fund	<u>176,698,210</u>	<u>160,957,092</u>	<u>158,186,689</u>	<u>147,589,546</u>
Total Income Required	<u>242,911,431</u>	<u>219,504,889</u>	<u>213,021,997</u>	<u>176,235,729</u>
Net Investment Income	<u>3,100,757,133</u>	<u>541,824,049</u>	<u>919,256,657</u>	<u>3,643,341,040</u>
Less: Total Income Required	<u>242,911,431</u>	<u>219,504,889</u>	<u>213,021,997</u>	<u>176,235,729</u>
Excess Income To The Pension Reserve Fund	<u>\$2,857,845,702</u>	<u>\$322,319,161</u>	<u>\$706,234,660</u>	<u>\$3,467,105,311</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT SYSTEM STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF JUNE 30,			
	2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	\$1,580,110	\$771,274	\$499,114	\$910,849
PRIT Cash Fund	103,427	290,273	203,948	56,352
PRIT Core Fund	174,033,560	170,108,888	183,840,545	194,225,413
Accounts Receivable	0	334,940	0	0
Accounts Payable	(140,766)	(114,022)	(147,838)	(32,634)
Total	<u>\$175,576,330</u>	<u>\$171,391,353</u>	<u>\$184,395,769</u>	<u>\$195,159,980</u>
Fund Balances:				
Annuity Savings Fund	\$41,226,826	\$49,269,105	\$58,946,082	\$60,930,056
Annuity Reserve Fund	33,752,836	27,754,528	20,030,676	20,574,731
Pension Fund	0	0	0	0
Military Service Fund	557	556	556	555
Expense Fund	0	0	0	0
Pension Reserve Fund	100,596,111	94,367,164	105,418,455	113,654,638
Total	<u>\$175,576,330</u>	<u>\$171,391,353</u>	<u>\$184,395,769</u>	<u>\$195,159,980</u>

**MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT SYSTEM
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 July 1, 2013	\$63,156,010	\$20,933,882	\$0	\$555	\$0	\$98,169,142	\$182,259,589
Receipts	32,441	358,601	721,853	0	1,030,608	29,116,016	31,259,520
Interfund Transfers	(1,953,040)	1,953,040	13,630,520	0	0	(13,630,520)	0
Disbursements	(305,355)	(2,670,792)	(14,352,373)	0	(1,030,608)	0	(18,359,129)
Ending Balance June 30, 2014	60,930,056	20,574,731	0	555	0	113,654,638	195,159,980
Receipts	62,424	647,139	165,730	1	988,329	5,632,072	7,495,696
Interfund Transfers	(1,484,293)	1,484,293	13,868,255	0	0	(13,868,255)	0
Disbursements	(562,105)	(2,675,488)	(14,033,985)	0	(988,329)	0	(18,259,907)
Ending Balance June 30, 2015	58,946,082	20,030,676	0	556	0	105,418,455	184,395,769
Receipts	59,935	679,797	1,017,339	1	904,276	2,159,473	4,820,820
Interfund Transfers	(9,541,436)	9,541,436	13,210,764	0	0	(13,210,764)	0
Disbursements	(195,477)	(2,497,381)	(14,228,103)	0	(904,276)	0	(17,825,237)
Ending Balance June 30, 2016	49,269,105	27,754,528	0	556	0	94,367,164	171,391,353
Receipts	50,013	850,264	344,592	1	926,680	19,716,285	21,887,834
Interfund Transfers	(7,588,949)	7,588,949	13,487,339	0	0	(13,487,339)	0
Disbursements	(503,342)	(2,440,905)	(13,831,930)	0	(926,680)	0	(17,702,857)
Ending Balance June 30, 2017	\$41,226,826	\$33,752,836	\$0	\$557	\$0	\$100,596,111	\$175,576,330

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT SYSTEM STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Investment Income Credited to Member Accounts	<u>\$50,013</u>	<u>\$59,935</u>	<u>\$62,424</u>	<u>\$32,441</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>850,264</u>	<u>679,797</u>	<u>647,139</u>	<u>358,601</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	344,592	1,017,339	143,480	705,203
Settlement of Workers' Compensation Claims	0	0	22,250	16,650
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>344,592</u>	<u>1,017,339</u>	<u>165,730</u>	<u>721,853</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>926,680</u>	<u>904,276</u>	<u>988,329</u>	<u>1,030,608</u>
Pension Reserve Fund:				
Miscellaneous Income	3,571	13,331	24,570	5,828
Excess Investment Income	<u>19,712,715</u>	<u>2,146,142</u>	<u>5,607,502</u>	<u>29,110,188</u>
Sub Total	<u>19,716,285</u>	<u>2,159,473</u>	<u>5,632,072</u>	<u>29,116,016</u>
Total Receipts, Net	<u>\$21,887,834</u>	<u>\$4,820,820</u>	<u>\$7,495,696</u>	<u>\$31,259,520</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT SYSTEM STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING JUNE 30,				
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	<u>\$503,342</u>	<u>\$195,477</u>	<u>\$562,105</u>	<u>\$305,355</u>
Annuity Reserve Fund:				
Annuities Paid	2,440,905	2,497,381	2,542,362	2,625,314
Option B Refunds	<u>0</u>	<u>0</u>	<u>133,126</u>	<u>45,478</u>
Sub Total	<u>2,440,905</u>	<u>2,497,381</u>	<u>2,675,488</u>	<u>2,670,792</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	11,947,516	12,039,496	11,956,794	12,195,563
Survivorship Payments	366,271	680,801	724,582	742,563
Ordinary Disability Payments	106,714	88,815	100,737	104,161
Accidental Disability Payments	996,704	975,283	1,054,936	1,098,704
Accidental Death Payments	232,718	89,197	101,678	109,493
Section 101 Benefits	41,242	43,012	48,126	51,372
3 (8) (c) Reimbursements to Other Systems	<u>140,766</u>	<u>311,499</u>	<u>47,131</u>	<u>50,518</u>
Sub Total	<u>13,831,930</u>	<u>14,228,103</u>	<u>14,033,985</u>	<u>14,352,373</u>
Expense Fund:				
Management Fees	821,105	799,323	887,325	932,444
Custodial Fees	<u>105,575</u>	<u>104,952</u>	<u>101,004</u>	<u>98,164</u>
Sub Total	<u>926,680</u>	<u>904,276</u>	<u>988,329</u>	<u>1,030,608</u>
Total Disbursements	<u>\$17,702,857</u>	<u>\$17,825,237</u>	<u>\$18,259,907</u>	<u>\$18,359,129</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT SYSTEM INVESTMENT INCOME

	FOR THE PERIOD ENDING JUNE 30,			
	2017	2016	2015	2014
Investment Income Received From:				
Pooled or Mutual Funds	<u>\$4,953,201</u>	<u>\$4,771,947</u>	<u>\$4,837,020</u>	<u>\$5,604,297</u>
Total Investment Income	<u>4,953,201</u>	<u>4,771,947</u>	<u>4,837,020</u>	<u>5,604,297</u>
Plus:				
Realized Gains	6,610,273	4,226,996	7,970,680	9,635,553
Unrealized Gains	<u>15,167,613</u>	<u>13,774,758</u>	<u>7,201,256</u>	<u>23,056,907</u>
Sub Total	<u>21,777,886</u>	<u>18,001,754</u>	<u>15,171,936</u>	<u>32,692,460</u>
Less:				
Realized Loss	0	(181,162)	0	0
Unrealized Loss	<u>(5,191,415)</u>	<u>(18,802,388)</u>	<u>(12,703,561)</u>	<u>(7,764,918)</u>
Sub Total	<u>(5,191,415)</u>	<u>(18,983,550)</u>	<u>(12,703,561)</u>	<u>(7,764,918)</u>
Net Investment Income	<u>21,539,672</u>	<u>3,790,151</u>	<u>7,305,395</u>	<u>30,531,838</u>
Income Required:				
Annuity Savings Fund	50,013	59,935	62,424	32,441
Annuity Reserve Fund	850,264	679,797	647,139	358,601
Military Service Fund	1	1	1	0
Expense Fund	<u>926,680</u>	<u>904,276</u>	<u>988,329</u>	<u>1,030,608</u>
Total Income Required	<u>1,826,957</u>	<u>1,644,009</u>	<u>1,697,894</u>	<u>1,421,651</u>
Net Investment Income	<u>21,539,672</u>	<u>3,790,151</u>	<u>7,305,395</u>	<u>30,531,838</u>
Less: Total Income Required	<u>1,826,957</u>	<u>1,644,009</u>	<u>1,697,894</u>	<u>1,421,651</u>
Excess Income To The Pension Reserve Fund	<u>\$19,712,715</u>	<u>\$2,146,142</u>	<u>\$5,607,502</u>	<u>\$29,110,188</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED STATE EMPLOYEES' RETIREMENT SYSTEM

(percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
PRIT Cash Fund	\$42,331,311	0.2%
PRIT Core Fund	<u>24,155,769,788</u>	<u>99.8%</u>
Grand Total	<u>\$24,198,101,099</u>	<u>100.0%</u>

For the year ending December 31, 2016, the rate of return for the investments of the State Employees' Retirement System was 8.15%. For the five-year period ending December 31, 2016, the rate of return for the investments of the State Employees' Retirement System averaged 9.28%. 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 State Employees' Retirement System was 9.36%.

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

By statute, the State Employees' Retirement System and the Massachusetts Turnpike Authority Retirement System are 100% invested in the Pension Reserves Investment Trust, and therefore, have not submitted any supplemental investment regulations to PERAC.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all State Employees' 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 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 3:

Specified hazardous duty positions made up exclusively of State Police officers and inspectors.

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.

Employees appointed to the State Police on or after July 1, 1996 contribute 12% of regular compensation. 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.

The allowance of state police officers is calculated using a slightly different formula. Information regarding this formula can be obtained directly from the State Retirement Board.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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 (OPTION D)

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

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

COST OF LIVING

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

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

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 fiscal year (June 30) basis in accordance with statute.

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 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.

A 3(8)c reimbursement is the pension benefit payment received from other Massachusetts public retirement systems for the portion of creditable service realized by retirees formerly contributing to another retirement system. These funds are swept by Treasury and posted to the Commonwealth's General Fund.

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 State Employees' Retirement System has adopted Supplemental Regulations which are available on the State website at <https://www.mass.gov/state-retirement-board-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 Treasurer And Receiver General Of The Commonwealth who shall be a member ex-officio, a second member appointed by the Treasurer, a third and fourth member who shall be elected by the members in or retired from the service of the Commonwealth, and a fifth member appointed by the other four board members.

Ex-officio Member: Deborah B. Goldberg, Chairman

Appointed Member: Patricia Deal Term Expires: 2/28/2022

Elected Member: Theresa M. McGoldrick, Esq. Term Expires: 4/30/2021

Elected Member: Francis Valeri Term Expires: 12/31/2022

Appointed Member: Archibald Gormley Term Expires: 2/28/2021

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

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

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$500,000 issued through Federal Insurance Company (Chubb Group of Insurance Companies). The system also has Fiduciary coverage to a limit of \$2,000,000 issued through RLI Insurance Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

An actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2018. The dollars amounts below are reflected in thousands.

The actuarial liability for active members was	\$17,510,093
The actuarial liability for vested terminated members was	969,875
The actuarial liability for non-vested terminated members was	194,941
The actuarial liability for retired members was	<u>21,781,702</u>
The total actuarial liability was	\$40,456,611
System assets as of that date were (actuarial value)	<u>26,248,250</u>
The unfunded actuarial liability was	<u>\$14,208,361</u>
The ratio of system's assets to total actuarial liability was	64.9%
As of that date the total covered employee payroll was	\$6,155,194

The normal cost for employees on that date was 9.1% of payroll

The normal cost for the employer (including expenses and transfers) was 6.3% of payroll

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

Investment Return: 7.35% per annum
 Rate of Salary Increase: Varies by group and service

SCHEDULE OF FUNDING AS OF JANUARY 1, 2018 (\$ In Thousands)

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)
1/1/2018	\$26,248,250	\$40,456,611	\$14,208,361	64.9%	\$6,155,194	230.8%
1/1/2017	\$24,773,042	\$38,316,719	\$13,543,677	64.7%	\$5,927,012	228.5%
1/1/2016	\$23,465,963	\$36,966,278	\$13,500,315	63.5%	\$5,792,288	233.1%
1/1/2015	\$22,720,160	\$33,679,150	\$10,958,990	67.5%	\$5,591,911	196.0%
1/1/2014	\$21,581,133	\$30,679,600	\$9,098,467	70.3%	\$5,344,510	170.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS (CONTINUED)

Chapter 25 of the Acts of 2009 transferred the liabilities and assets of the Massachusetts Turnpike Authority (MTA) Employees' Retirement System to the State Retirement System. These members are included in the January 1, 2010 valuation results and included in the subsequent valuation results along with the MTA assets.

Chapter 61 of the Acts of 2009, as amended by Chapter 102 of the Acts of 2009, transferred active members of the county sheriffs' departments in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the State effective January 1, 2010. The actuarial liabilities and assets for these members are reflected in the January 1, 2011 actuarial valuation and included in the subsequent valuation results along with the assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	FY 2014	FY 2015	FY 2016	FY 2017
Retirement in Past Years										
Total Retirements	2,086	2,373	2,809	3,246	2,988	2,921	1,055	1,121	3,365	883
Total Retirees, Beneficiaries and Survivors	51,058	51,411	52,978	54,047	54,921	55,721	57,333	58,454	61,819	62,702
Total Active Members	87,293	86,293	85,632	86,309	85,550	86,714	84,507	91,298	89,208	89,006
Pension Payments										
Superannuation	\$831,408	\$859,273	\$916,611	\$975,531	\$1,030,368	\$1,087,581	\$1,198,427	\$1,268,709	\$1,428,908	\$1,511,925
Survivor/Beneficiary Payments	52,743	55,451	58,331	60,343	63,405	66,950	73,159	77,075	81,002	46,458
Ordinary Disability	9,026	9,302	9,609	9,362	9,606	9,606	10,262	10,716	10,567	13,536
Accidental Disability	82,095	86,664	91,735	92,706	97,942	100,972	108,247	112,215	116,039	126,424
Other	<u>72,509</u>	<u>70,900</u>	<u>69,172</u>	<u>93,056</u>	<u>100,960</u>	<u>95,543</u>	<u>80,723</u>	<u>84,877</u>	<u>97,253</u>	<u>94,656</u>
Total Payments for Year	<u>\$1,047,781</u>	<u>\$1,081,590</u>	<u>\$1,145,458</u>	<u>\$1,230,998</u>	<u>\$1,302,281</u>	<u>\$1,360,652</u>	<u>\$1,470,819</u>	<u>\$1,553,592</u>	<u>\$1,733,770</u>	<u>\$1,792,998</u>

(The dollar amounts are reflected in thousands)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The State Employees' Retirement Board leases approximately 11,722 square feet of space for its offices located on the Eighth floor, One Winter Street, in the Downtown Crossing area of Boston. They signed an initial seven year lease term which expired on October 23, 2019. An Amendment dated, August 28, 2019, extends the lease an additional six years with an expiration date of October 23, 2025. The Amendment also includes an additional 3,791 square feet of office space located on the Seventh floor of the building. The cost per square foot include a range from \$33.76 to \$56.52 over the term of the lease. The landlord is Winsum Limited Partnership.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of June 30, 2017:

<u>For the fiscal year:</u>	<u>Annual Rent</u>
2018	\$384,830
2019	\$392,936
2020 (4 months)	<u>\$130,979</u>
Total future minimum lease payments required	<u>\$908,745</u>

Also, the Retirement Board occupies office space located at 436 Dwight Street, Springfield, MA. The User Agency Occupancy Agreement is between the Division of Capital Asset Management and Maintenance (DCAMM) and the State Retirement Board in accordance with G.L.c. 7C, sections 33 and 26.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - SOFTWARE ACQUISITION AND DEVELOPMENT COSTS

The State Retirement Board has made a significant investment in new technology to improve efficiency for Board staff, employers and local retirement boards and improve service to its members and retirees. The new computer system, Massachusetts Retirement Information System (MARIS), was designed to improve the accuracy and reporting of data. MARIS went live January 2017.

The following schedule displays the software and development costs as of June 30, 2017:

<u>For the fiscal year ending:</u>	<u>Costs</u>
2010	\$1,665,100
2011	\$2,956,829
2012	\$1,172,274
2013	\$3,823,181
2014	\$2,515,143
2015	\$4,999,784
2016	\$8,661,895
2017	<u>\$17,618,781</u>
Total MARIS costs since inception in FY10	<u>\$43,412,987</u>

NOTE 9 - TRANSFER OF PLAN ADMINISTRATION

The Optional Retirement Program (ORP) is a retirement plan for employees at the Commonwealth's public institutions of higher education and the Department of Higher Education. Section 60 of the Pension Reform Act of 2011 allowed eligible employees to transfer from ORP to the SRB, effective May 1, 2014. There are assets still in TIAA Traditional Account at ORP that have not yet been transferred to the State. These assets cannot be transferred in one lump sum but may be transferred in installments over a period of time. There was \$66M of ORP assets not yet transferred to the State at June 30, 2017.

APPENDIX A

I. Accounts Receivable (AR) as of June 30, 2017:

a. Middlesex County Retirement System (MCRS) / §3(8)(c)

The reconciliation of §3(8)(c) payments from and to the MCRS is long-standing and well documented between the two systems. It has continued during multiple PERAC audits. The MCRS initiated the action by making its last §3(8)(c) payment to the MSRB in 1998. Since then the MSRB has regularly sought resolution of the outstanding amounts from the MCRS. In partial response the MSRB halted COLA reimbursement payments to the MCRS after December 2003.

In connection with the abolition of Middlesex County by Chapter 48 of the Acts of 1997, the enactment of G.L. c.34B, and the Commonwealth's assumption of certain pension liabilities, Middlesex County claimed it should not be responsible for the then unfunded liability for retirees of Middlesex County viewing it as an obligation of the Commonwealth. (The MCRS had initially delayed the transfer of the annuity accounts of active employees which required PERAC intervention).

Ongoing work continued and the MSRB made adjustments to the relevant §3(8)(c) and §59A data while the systems maintained their efforts. The MSRB corresponded regularly (2007; 2008) requesting continued cooperation from the MCRS that it identify any specific issues that remained outstanding so that the systems could work toward final resolution and when the MCRS expected to address its outstanding balance.

In 2012 the MSRB received an initial §3(8)(c) reimbursement payment made by the MCRS in the amount of \$3.4 million for pensions paid in 2011 by the MSRB. The payment was based on an invoice for calendar year 2011 generated in January 2012 by Board staff. Notwithstanding the payment, the outstanding balance totaled \$34,202,393.99 for the years 1998 to 2011.

Staff from both boards have expended considerable effort and time since then updating the individual retiree records related to Middlesex's reimbursement obligations pursuant to G.L. §32, §3(8)(c) while working toward resolution. MCRS has continued to send updates and the MSRB has continued to maintain the records and reconcile data, preparing to finalize the amount due to the MSERS at the time of eventual resolution.

b. COLA Reimbursements

The overpayments of the COLA made to the City of Boston and the City of Lawrence continue to be recovered by MSRB each year.

As noted, the City of Lawrence has been under an escalating repayment agreement with the MSRB since 2014 for outstanding amounts related to non-contributory retirees for whom reimbursement had been made under Chapter 35I of the Acts of 1981, as amended. Their annual payments remain current.

APPENDIX A (Continued)

The MSRB has been in regular communication with the City of Boston for almost fifteen years seeking ongoing and regular verification of eligible payees. Over that time period it has taken several steps to bring the account into balance and recover any overpayments. In 2005 because of inadequate responses to MSRB requests of continuing eligibility, the MSRB initially halted payments.

In 2016 in the absence of definitive information on more than 700 retirees who were reported without social security numbers, Boston was informed that these retirees would be considered constructively deceased, as of certain specified dates, unless contrary information was provided. These retirees were dropped, and payments terminated, for reporting purposes, unless or until Boston could provide confirmation that the retirees remained eligible. No information has been received from Boston. The most recent communication, in September 2019, requested payment of the outstanding balance.

MSRB sent communication to inform Boston of the offset mechanism (payment schedule) and to give them an opportunity to respond. To date, no response has been received. MSRB will continue with the offset each year and will continue to keep lines of communication open to ensure collection of the overpayments.

c. Optional Retirement Program (“ORP”)

Section 60 of Chapter 176 of the Acts of 2011 authorized the transfer by eligible ORP participants from that plan to the MSERS.

From the more than 1,500 individuals who elected to transfer to the MSERS as of November 2019, approximately \$49m are scheduled to be transferred to the MSERS. Over \$30m of the assets yet to be transferred are invested by more than 700 participants in the TIAA Traditional fund account, one of the approved investment options authorized by the Department of Higher Education, the plan sponsor of the ORP.

Due to the contractual terms of the TIAA Traditional Account, assets contained therein are not liquid, so transferring them from the ORP to the MSERS in a lump sum in accordance with Section 60 while the participant is actively employed is not readily accomplished, except in limited circumstances. Most of the transferring participants remain actively employed by the Commonwealth.

One exception was for those in Section 60 who retired before January 1, 2017. Another exception is for Traditional Accounts with less than \$5,000.00 in assets. A third exception is the death of the ORP participant, allowing payment of ORP assets in a lump sum to the beneficiary.

Otherwise, assets in Traditional Accounts are accessible through two installment plans or upon termination of employment. The first installment plan is available for those in the Group Retirement Annuity (issued prior to September 2010) which consists of annual installments over a period of 9 years and one month. The second installment plan is available for those in

APPENDIX A (Continued)

the Retirement Choice Annuity (issued after August 2010) which consists of 84 monthly installments.

The installment payments can be directed to other ORP investment funds that are liquid. From there, the assets can be transferred to the MSERS in order to complete Section 60 payments. Alternatively, within 120 days after termination of employment, an ORP participant can request one or more lump sum payments from a Traditional Account to the MSERS.

d. Entities Subject to §28(4)(c)

The MSRB is currently statutorily obligated to annually issue a request for reimbursement to certain non-Commonwealth employers who participate in the MSERS for the pro rata share of pension payments made by the MSRB during the previous calendar year that include service with these employers. This obligation is currently set forth in M.G.L. c.32, §28.

There are fifty-six entities, non-state agencies as well as authorities, independent agencies, or quasi-public entities, that participate in, and whose employees are members of, the MSERS. These entities include regional vocational schools (non-teachers), educational collaboratives (non-teachers), regional planning commissions and entities such as PRIM, Mass. School Building Authority, and Mass. Development. These entities also do not report through the Commonwealth's HRCMS payroll system.

As part of the MSRB's efforts related to the federal GASB reporting requirements the status of the non-state entities and their funding obligations to the MSERS were reviewed. A sub-group of these entities listed below joined the MSERS in the 1960's & 1970's through the use of G.L. c.32, §28(4) and were issued certificates by the Division of Insurance, which oversaw retirement systems prior to the creation of PERAC.

For many of the organizations the first retirements from these entities would have occurred in the 1980's or 1990's, years after the entity joined the MSERS. It is unclear given the passage of time, changes in administrations and staff for all related parties what, if any procedures were in place or implemented to track these specific entities or if there was an awareness of the reporting obligations.

The sub-group of these entities are:

- Berkshire Planning Commission
- Central Mass. Regional Planning District
- Merrimack Valley Planning Commission
- Montachusett Regional Planning Commission
- Metropolitan Area Planning Council*
- Nashoba Associated Boards of Health
- North Middlesex Council of Governments
- Old Colony Planning Council
- Pioneer Valley Planning Commission
- Southeastern Regional Planning & Economic Development

APPENDIX A (Continued)

- Upper Blackstone Water Pollution District
- Assabet Valley Regional Technical School District
- Blackstone Valley Regional School District
- Bristol/Plymouth Regional Technical School District
- Montachusett Regional Vocational Technical School District
- Northeast Metro Regional Vocational School District
- Old Colony Regional Vocational Technical School District
- Southeastern Regional Vocational Technical School District
- Tri-County Regional Vocational Technical School District
- Upper Cape Cod Regional Technical School District

In April 2014 the MSRB contacted and then wrote to the entities to bring the reporting and funding requirements to their attention. The affected entities were provided with copies of the documents on file with the MSRB related to their original admission to the MSERS. They were notified of the MSRB's desire to discuss the matter with them further and to commence payments to the MSERS. Several of the entities or their counsel contacted the MSRB and provided feedback on the matter.

Each entity was also provided a listing of current MSERS retirees and a statement/invoice for benefits paid by the MSRB in calendar year 2013 based on the retirees' service with each entity. The statements/invoices for 2013 were considered to have been properly issued for payment.

Correspondence to these entities expressed the view that they would be responsible for the calendar 2013 reimbursements and the MSRB would work with them given their budget situations to accomplish the payments in a mutually agreeable fashion.

Based on comments and feedback received, the MSERS Board reviewed the matter at its June 26, 2014 meeting.

In the fiscal 2016 General Appropriations Act the Legislature established a working group chaired by the Executive Office of Administration & Finance ("A&F") to review the current statutory reimbursement process and make recommendations to the House and Senate Ways & Means Committees. (Section 164 Chapter 46 of the Acts of 2015). The original deadline for the filing of any report was October 1, 2015.

The MSRB corresponded with A&F in June 2016 that the working group had yet to be convened.

In the interim the reporting deadline for the working group was extended twice. In October 2015 through a supplemental budget the reporting deadline was extended to March 1, 2016. Chapter 119 of the Acts of 2015. In a supplemental budget the reporting deadline was again extended to November 1, 2016. (Chapter 70 of the Acts of 2016).

The working group met on March 30, 2017, June 8, 2017, and November 8, 2017. Thereafter, the group ceased to meet despite efforts by the MSRB to re-engage.

APPENDIX A (Continued)

MSRB filed legislation in January 2019 (House Bill #48) regarding the collection of the monies of the Non-State Quasi-Independent entities. On June 25, 2019 a hearing on the bill was held before the Joint Committee on Public Service. No further legislative action has been taken to date. Until such time, regular communication is sent to each entity reporting its liability. MSRB will continue to monitor this issue.

The Board and the affected entities remain eager to have the reimbursement issue addressed and look forward to the working group being convened and developing recommendations for consideration. As many of the affected entities are educational in nature their availability over the summer months may be limited.

2. Cash Reconciliations:

Action steps taken to accomplish the reconciliation:

- The MSRB hired a dedicated full-time staff member to supplement the Finance team and assist in the reconciliation of the cash accounts. New staff would provide an objective perspective to the account transactions.
- New employee started on June 1, 2019.
- The Finance Director prepared and implemented a training schedule. This involved MSRB exposure, high level PERAC exposure, Great Plains, MMARS and MARIS. Access to each platform was initiated.
- Training was conducted (and ongoing) by the MSRB training team and the Finance team.

Results

- Reconciliation of each cash account has been prepared (on an annual basis) and independently reviewed for the period of FY2014-FY2019.
- Research is in process to resolve variances. (Note: Access to MMARS by the Office of the Comptroller was not granted until September 3, 2019. The Commonwealth's security policy restricts access to its MMARS Warehouse based on an employee's, contractor's, contingent employee's status. Access to the Warehouse would be needed since the reconciliation was for the aged cash accounts and the ability to sort the data would support the resolution of variances. Because of this, specific approvals from Treasury and the Comptroller were required. The approval process resulted in a delay. Ultimately the access was restricted and excluded Warehouse capability. To supplement the restriction, the finance assistant director provided the research. This late access has inhibited the research of variances to date.)
- Monthly reconciliation process for cash accounts GL 1040, 1050, 1062, and 1063 has been implemented for FY2020.
- Reconciliation process has been documented.



COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

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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 | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN

February 17, 2022

Deborah B. Goldberg
Office of the State Treasurer
State House
Room 227
Boston MA 02133

REFERENCE: Report of the Examination of the State Employees' Retirement System for the four-year period from July 1, 2013 through June 30, 2017.

Dear Chairperson Goldberg:

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

1. The Audit Report cited a finding that there were Account Receivables (AR) that were not recorded to the General Ledger (GL) as of June 30, 2017 and there was an AR from prior years still outstanding as of June 30, 2017.

Follow-up Result: The State Retirement Board provided documentation to show that the AR items were recorded to the GL at June 30, 2019. The AR from prior years related to employer pension obligations from non-state quasi-independent entities pursuant to c. 32, sec. 28(4)(c) is still outstanding and continues to grow. The Board refiled legislation in February 2021 regarding the collection of the money. This issue is partially resolved.

2. The Audit Report cited a finding that cash reconciliations were performed for only two out of six cash accounts listed in the GL.

Follow-up Result: The State Retirement Board prepared reconciliations for GL #1040, #1050, #1062 and #1063 cash accounts from FY2014 to FY2019 on an annual basis and prepared monthly reconciliations starting in FY2020. The Board provided copies of the June 30, 2021 reconciliations prepared for the four cash accounts from MMARS to the GL. This issue is resolved.



February 17, 2022

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3. The Audit Report cited a finding that identified retirement allowance calculation errors for three retirees.

Follow-up Result: The first retiree's allowance was missing the veteran allowance of \$300 per year. This was corrected and monies due to the retiree were paid in February 2019. The other two were disability retirement allowance calculations that did not use the final annual rate of regular compensation and the retirees were underpaid. The corrections have been calculated and monies due were paid on January 31, 2022. This issue is resolved.

4. The Audit Report cited a finding that 17 of the 21 sampled retirees with modified 3(8)(c) reimbursements from other Boards were overbilled by the State Retirement Board in 2017 for calendar year 2016 for approximately \$88,000.

Follow-up Result: Based on the follow-up test work of 3(8)(c) billed for calendar year 2020, the State Retirement Board has updated their 3(8)(c) billing to other boards to reflect the modifications as directed by PERAC. This issue is resolved.

5. The Audit Report cited a finding that the Massachusetts Turnpike Authority continues to be recognized as a Separate Component Unit.

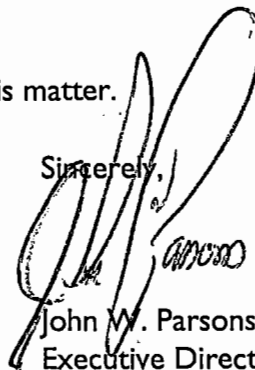
Follow-up Result: The Massachusetts Turnpike Authority continues to be a separate component unit. The Board has continued to file legislation to merge and consolidate the investment portfolio and members' accounts of the Massachusetts Turnpike Authority, most recently in February 2021. This issue is not resolved.

The additional matters discussed have been reviewed and significantly resolved.

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

Thank you for your continued cooperation in this matter.

Sincerely,



John M. Parsons, Esq.
Executive Director

JWP/tal

cc: State Retirement Board Members