Stoneham

Retirement System
Audit Report

JAN. 1, 2014 - DEC. 31, 2017

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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January 5, 2021

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Stoneham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2014 to December 31, 2017. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash and investment balances are accurately stated, 3) that procurements of investment related contracts complied with 23B and that management fees paid were in accordance with contracts, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Stoneham Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash and investment balances, examined a sample of investment related procurements and recalculated management fees charged. We tested a sample of travel expenses for Board approvals, supporting documentation, and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over $30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness.

In our opinion, for those areas tested, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Michelle Lastra, and Alice Munafo who conducted this examination, and express appreciation to the Board and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons, Esq.
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation:
Payroll registers from the Town, School, and Housing Authority were reviewed. The following errors were found.

Pay types that had retirement contributions incorrectly withheld were a one-time payment to a school cafeteria worker for catering and the additional hours that the DPW's Emergency Crew work outside of their regular schedules. One-time payments fail to be "other base compensation" as required by 840 CMR 15.03 3(b) because they are not paid on an annual basis. The Emergency Crew's extra hours are not regular compensation because they are not "pre-determined" (840 CMR 15.03 3(b)).

Pay types that should have had retirement contributions withheld but did not were the Housing Authority's on-call pay and the police stipend for auditing traffic citations. These are pre-determined payments for a service to the employer, so they are regular compensation pursuant to 840 CMR 15.03 3(a) and (b).

In addition to the previous paragraphs, there is a payment of indeterminate status. The Town uses two "Other" codes for many payments; one of which has retirement contributions withheld while the other one does not. A retiree in our sample received a payment under the Other code used for regular compensation, but this payment was not included in the three-year average salary. The response to our inquiry of what service this was paid for was that the reason was unknown.

Recommendation: Board staff must work with the payroll departments of the Town and Housing Authority to correctly calculate the retirement contributions in the situations cited above. Any retirements affected by these issues should be re-calculated.

Board Response (in part):
The Board staff has always worked with and attempted to educate the Town, School and Housing Authority payroll departments as to what constitutes regular compensation and what should be excluded.

As a general response to the regular compensation findings, the Board agrees that the one-time payments that are not regular and recurring should be excluded from regular compensation, as well as the hours paid beyond the normal work schedule. With respect to the on call or so- called "beeper pay," the Board recognizes that "beeper pay" is regular compensation when it is evenly distributed among eligible employees, and the Board staff will continue to work with the payroll staff to insure they understand the distinction and deduct retirement contributions where appropriate. The Board staff will also seek to determine who has received beeper pay that is regular compensation and seek to recoup the missing deductions.

Finally, the Board acknowledges that there have been payments made to some employees that were of indeterminate status and the Board will continue to work with the Town to identify the payment's purpose and ask the town to create a code legend to ensure that payments that are deemed to be regular compensation have retirement deductions withheld.

The complete Board response to Finding 1 is located in Appendix A.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. Retiree Allowance Calculations:

The sample of retirees reviewed by the auditors contained two members who had leaves of absence in their final three years. Section 5(3)(b) states that for unpaid approved leaves less than one year, the Board must use the rate in effect prior to the leave for the length of that leave. In the cases reviewed the average salary calculation used periods of three consecutive years prior to the leave, which resulted in the average salaries being less than they should have been.

Recommendation: These allowances should be re-calculated. Other retirees with the same circumstances as these should be reviewed.

Board Response:

The Board understands the proper application of M.G.L. c. 32, § 5(3)(b) as it pertains to leaves of absences and Board staff will review retiree calculations and adjust them where appropriate and necessary.

3. Service Purchases:

Our sample of active members included one who, while a member in Stoneham, purchased in 2015 time served at a unit in a second system and was charged buyback instead of actuarial interest. At the March 2012 meeting the Board voted to use buyback interest for all purchases of non-member time. Although this is correct for members buying prior Stoneham time under §4(2)(c), it is not correct when purchasing, after April 1, 2013, non-member time from another system under §3(5).

Recommendation: All service purchases made pursuant to §3(5) after April 1, 2013 should be reviewed and members informed if they underpaid.

Board Response:

The Board respectfully disagrees with PERAC's interpretation that requires all M.G.L. c. 32, § 3 service purchases that occur after April 1, 2013 must be calculated using actuarial interest. As you know, Section 9 of Chapter 176 of the Acts of 2011 amended M.G .L. c. 32, § 3(8)(b) and added the following clause: "Notwithstanding any provision of this chapter to the contrary, a member who is reinstated to, or re-enters the active service of, a governmental unit, or who is eligible to receive credit for other service under this section, and who does not, (i) pay into the annuity savings fund of the system make-up payments of an amount equal to the accumulated regular deductions withdrawn by the member, together with buyback interest; or (ii) make provision for the repayment in installments, upon such terms and conditions as the board may prescribe, to pay into the annuity savings fund of the system make-up payments of an amount equal to the accumulated regular deductions withdrawn by the member, together with buyback interest, within 1 year from the date of reinstatement or re-entry or within 1 year after April 2, 2012, whichever is later, shall pay actuarial assumed interest instead of buyback interest on all make-up payments to be entitled to creditable service resulting from the previous employment (emphasis added)." Following Chapter 176's enactment, the Board sought its counsel's guidance as to its proper implementation and interpretation, and the Board voted as noted at its March 27, 2012 meeting to follow its counsel's guidance. It seems clear that in inserting this clause in Section 3(8)(b) - which pertains exclusively to employees who were retirement system members and who withdrew their funds after terminating their employment and membership - was to discourage those members from withdrawing their funds from the retirement system by imposing actuarial interest if they did not purchase the service on or before April 1, 2013, or within a year of becoming a retirement system member, whichever occurred later. On this latter point, the finding is technically incorrect as it suggests that the deadline to secure the buyback interest rate is April 1, 2013, whereas that deadline only applied to those employees who were retirement system members on April 2, 2012. The Board believes that if the Legislature intended to apply actuarial interest to all Section 3 service purchases it could have easily done so, but by inserting it in Section 3(8)(b) it was being deliberate in targeting prior membership service, and not non-membership service. The Board also recognized that to disparately treat non-membership service rendered pursuant to Section 3(5) in comparison to Section 4(2)(c) made little sense from a statutory construction and interpretation perspective.

PERAC Response:

We must reiterate that all service purchases made pursuant to G.L. c. 32, § 3(5) after April 1, 2013 must be made with actuarial interest. The Board is misreading the provisions of G.L. c. 32, §3(8)(b). In the Board's response you quoted a passage from that section but highlighted the wrong provision. That section states:

> Notwithstanding any provision of this chapter to the contrary, a member who is reinstated to, or re-enters the active service of, a governmental unit, **or who is eligible to receive credit for other service under this section**, and who does not, (i) pay into the annuity savings fund of the system make-up payments of an amount equal to the accumulated regular deductions withdrawn by the member, together with buyback interest; or (ii) make provision for the repayment in installments, upon such terms and conditions as the board may prescribe, to pay into the annuity savings fund of the system make-up payments of an amount equal to the accumulated regular deductions withdrawn by the member, together with buyback interest, **within 1 year from the date of reinstatement or re-entry or within 1 year after April 2, 2012**, whichever is later, shall pay actuarial assumed interest instead of buyback interest on all make-up payments to be entitled to creditable service resulting from the previous employment.(emphasis added.)

The first highlighted clause refers to the purchase of service under any of the provisions of G.L. c. 32, §3 not just redeposits under section 3 (8). The second highlighted clause provides that members who are reinstated or reentering service have 1 year from such date to purchase their prior service with buyback interest. Members who are buying prior non-membership time under section 3(5) are not reinstated or reentering members and thus do not get the one-year grace period. Anyone purchasing service under the other provisions of section 3 must pay actuarial interest on any buybacks which occur after April 1, 2013.

Please refer to PERAC Memorandum 23 of 2012 for a fuller explanation of service purchases under section 3 following the passage of Chapter 176 of 2011.

FINAL DETERMINATION:

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

ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2017	2016	2015	2014
Net Assets Available For Benefits:				
Cash	50,864	62,837	32,478	104,631
Pooled Domestic Equity Funds	22,919,825	19,581,386	0	0
Pooled International Equity Funds	11,917,774	8,162,025	0	0
Pooled Domestic Fixed Income Funds	11,424,363	11,814,971	0	0
Pooled International Fixed Income Funds	3,663,900	3,852,844	0	0
Pooled Alternative Investment Funds	155,166	28,105	0	0
Pooled Real Estate Funds	7,047,373	5,832,650	0	0
Pooled Domestic Balanced Funds	6,224,567	6,011,170	0	0
Hedge Funds	4,893,649	3,859,825	0	0
PRIT Cash Fund	0	0	110,132	30,062
PRIT Core Fund	24,021,651	20,599,430	73,587,335	73,630,219
Interest Due and Accrued	158,403	47,836	0	0
Prepaid Expenses	0	6,312	6,346	0
Accounts Receivable	81,550	46,533	108,875	53,874
Accounts Payable	(7,080)	(8,188)	(1,914)	(3,222)
Total	92,552,007	79,897,736	73,843,252	73,815,564
Fund Balances:				
Annuity Savings Fund	15,719,685	14,958,041	14,962,185	13,996,662
Annuity Reserve Fund	4,220,088	4,765,046	4,285,266	4,629,539
Pension Fund	12,406	38,910	421,813	483,242
Military Service Fund	46,237	38,620	38,581	38,542
Expense Fund	0	0	0	0
Pension Reserve Fund	72,553,591	60,097,118	54,135,407	54,667,579
Total	92,552,007	79,897,736	73,843,252	73,815,564

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2014	13,612,422	4,990,158	459,976	36,199	0	50,792,941	69,891,696
Receipts	1,405,795	142,651	5,234,124	2,343	611,428	4,854,515	12,250,857
Interfund Transfers	(546,103)	546,101	979,879	0	0	(979,877)	0
Disbursements	(475,452)	(1,049,371)	(6,190,738)	0	(611,428)	0	(8,326,989)
Ending Balance 2014	13,996,662	4,629,539	483,242	38,542	0	54,667,579	73,815,564
Receipts	1,744,876	131,646	5,605,825	39	619,824	41,488	8,143,698
Interfund Transfers	(579,028)	579,028	573,660	0	0	(573,660)	0
Disbursements	(200,326)	(1,054,946)	(6,240,914)	0	(619,824)	0	(8,116,009)
Ending Balance 2015	14,962,185	4,285,266	421,813	38,581	0	54,135,407	73,843,252
Receipts	1,776,242	134,511	6,006,245	39	628,386	6,044,806	14,590,229
Interfund Transfers	(1,483,303)	1,483,303	83,095	0	0	(83,095)	0
Disbursements	(297,082)	(1,138,034)	(6,472,243)	0	(628,386)	0	(8,535,745)
Ending Balance 2016	14,958,042	4,765,046	38,910	38,620	0	60,097,118	79,897,736
Receipts	1,695,841	136,177	6,411,361	7,617	751,021	12,709,886	21,711,904
Interfund Transfers	(523,175)	523,175	253,414	0	0	(253,414)	0
Disbursements	(411,023)	(1,204,311)	(6,691,279)	0	(751,021)	0	(9,057,634)
Ending Balance 2017	15,719,685	4,220,088	12,406	46,237	0	72,553,591	92,552,007

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Members Deductions	1,415,545	1,370,725	1,291,978	1,286,415
Transfers from Other Systems	212,983	385,031	406,114	97,268
Member Make Up Payments and Re-deposits	(10,130)	(1,981)	7,800	(6,231)
Member Payments from Rollovers	56,435	8,192	24,146	14,653
Investment Income Credited to Member Accounts	21,008	14,275	14,838	13,691
Sub Total	1,695,841	1,776,242	1,744,876	1,405,795
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	136,177	134,511	131,646	142,651
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	216,116	213,324	212,483	217,464
Received from Commonwealth for COLA and Survivor Benefits	95,681	102,032	116,672	124,059
Pension Fund Appropriation	6,099,564	5,690,889	5,276,670	4,892,601
Recovery of 91A Overearnings	0	0	0	0
Sub Total	6,411,361	6,006,245	5,605,825	5,234,124
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	7,579	0	0	2,322
Investment Income Credited to the Military Service Fund	39	39	39	22
Sub Total	7,617	39	39	2,343
Expense Fund:				
Investment Income Credited to the Expense Fund	751,021	628,386	619,824	611,428
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	72
Interest Not Refunded	3,946	0	301	508
Excess Investment Income	12,705,940	6,044,806	41,187	4,853,935
Sub Total	12,709,886	6,044,806	41,488	4,854,515
Total Receipts, Net	21,711,904	14,590,229	8,143,698	12,250,857

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2017	2016	2015	2014
Annuity Savings Fund:				
Refunds to Members	58,177	14,065	96,124	156,046
Transfers to Other Systems	352,846	283,017	104,201	319,406
Sub Total	411,023	297,082	200,326	475,452
Annuity Reserve Fund:				
Annuities Paid	1,204,311	1,138,034	1,054,946	1,037,004
Option B Refunds	0	0	0	12,367
Sub Total	1,204,311	1,138,034	1,054,946	1,049,371
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	4,739,217	4,585,279	4,312,074	4,251,372
Survivorship Payments	437,084	410,416	424,797	408,020
Ordinary Disability Payments	14,964	34,758	37,487	38,461
Accidental Disability Payments	701,797	693,997	686,197	690,860
Accidental Death Payments	338,513	335,574	339,477	343,036
Section 101 Benefits	49,643	47,190	45,133	53,303
3 (8) (c) Reimbursements to Other Systems	314,379	262,997	279,078	281,627
State Reimbursable COLA's Paid	95,681	102,032	116,672	124,059
Sub Total	6,691,279	6,472,243	6,240,914	6,190,738
Expense Fund:				
Board Member Stipend	2,411	3,000	3,000	0
Salaries	169,379	165,093	161,047	156,943
Legal Expenses	38,118	32,833	23,265	22,340
Travel Expenses	3,292	2,327	3,125	2,395
Administrative Expenses	2,544	3,456	3,098	3,240
Actuarial Services	6,000	14,000	0	8,800
Education and Training	1,600	1,190	1,620	1,890
Furniture and Equipment	680	1,000	559	876
Management Fees	300,523	345,966	380,177	382,060
Custodial Fees	5,103	3,238	0	0
Consultant Fees	195,253	31,250	20,000	10,000
Service Contracts	21,415	20,395	19,430	18,500
Fiduciary Insurance	4,703	4,638	4,503	4,384
Sub Total	751,021	628,386	619,824	611,428
Total Disbursements	9,057,634	8,535,745	8,116,009	8,326,989

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2017	2016	2015	2014
Investment Income Received From:				
Cash	1,878	176	169	132
Pooled or Mutual Funds	2,312,194	2,068,094	1,930,072	2,033,888
Total Investment Income	2,314,072	2,068,269	1,930,241	2,034,019
Plus:				
Realized Gains	4,343,671	1,424,406	2,690,076	3,225,401
Unrealized Gains	9,943,293	9,370,730	3,854,460	4,656,417
Interest Due and Accrued - Current Year	158,403	47,836	0	0
Sub Total	14,445,368	10,842,972	6,544,536	7,881,818
Less:				
Realized Loss	(156,168)	(37,103)	(35,694)	0
Unrealized Loss	(2,941,250)	(6,052,121)	(7,631,549)	(4,294,111)
Interest Due and Accrued - Prior Year	(47,836)	0	0	0
Sub Total	(3,145,254)	(6,089,224)	(7,667,243)	(4,294,111)
Net Investment Income	13,614,186	6,822,017	807,534	5,621,727
Income Required:				
Annuity Savings Fund	21,008	14,275	14,838	13,691
Annuity Reserve Fund	136,177	134,511	131,646	142,651
Military Service Fund	39	39	39	22
Expense Fund	751,021	628,386	619,824	611,428
Total Income Required	908,245	777,211	766,347	767,792
Net Investment Income	13,614,186	6,822,017	807,534	5,621,727
Less: Total Income Required	908,245	777,211	766,347	767,792
Excess Income (Loss) To The Pension Reserve Fund	12,705,940	6,044,806	41,187	4,853,935

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2017	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$50,864	0.1%
Pooled Domestic Equity Funds	22,919,825	24.8%
Pooled International Equity Funds	11,917,774	12.9%
Pooled Domestic Fixed Income Funds	11,424,363	12.4%
Pooled International Fixed Income Func	3,663,900	4.0%
Pooled Alternative Investment Funds	155,166	0.2%
Pooled Real Estate Funds	7,047,373	7.6%
Pooled Domestic Balanced Funds	6,224,567	6.7%
Hedge Funds	4,893,649	5.3%
PRIT Core Fund	24,021,651	26.0%
Grand Total	$92,319,133	100.0%

For the year ending December 31, 2017, the rate of return for the investments of the Stoneham Retirement System was 17.22%. For the five-year period ending December 31, 2017, the rate of return for the investments of the Stoneham Retirement System averaged 10.11%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Stoneham Retirement System was 9.01%.

The composite rate of return for all retirement systems for the year ending December 31, 2017 was 17.63%. For the five-year period ending December 31, 2017, the composite rate of return for the investments of all retirement systems averaged 9.83%. For the 33-year period ending December 31, 2017, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.36%.

SUPPLEMENTARY INFORMATION (Continued)

SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

SUPPLEMENTARY INFORMATION (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

AMOUNT OF BENEFIT

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

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

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

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

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

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

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

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 72.

SUPPLEMENTARY INFORMATION (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $897.72 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 $897.72 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 $300,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (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.

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.

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 SEI Investments Management Corporation 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.

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

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member:	David Castellarini		
Appointed Member:	Kathleen Sullivan	Serves until a successor is appointed	
Elected Member:	Francis Gould, Jr.	Term Expires:	12/15/2020
Elected Member:	John Scullin	Term Expires:	12/15/2020
Appointed Member:	Janice Houghton, Chairperson	Term Expires:	01/05/2021

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

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

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

BOARD REGULATIONS

The Stoneham Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at https://www.mass.gov/stoneham-retirement-board-regulations.

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2018.

The actuarial liability for active members was	$45,773,857
The actuarial liability for inactive members was	1,100,927
The actuarial liability for retired members was	71,702,978
The total actuarial liability was	$118,577,762
System assets as of that date were (actuarial value)	88,526,959
The unfunded actuarial liability was	$30,050,803
The ratio of system's assets to total actuarial liability was	74.7%
As of that date the total covered employee payroll was	$14,642,891

The normal cost for employees on that date was	9.2% of payroll
The normal cost for the employer including administrative expenses was	8.5% of payroll

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

Investment Return:	7.25% per annum
Rate of Salary Increase:	Select and ultimate rate (4.25%)

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2018

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	$88,526,959	$118,577,762	$30,050,803	74.7%	$14,642,891	205.2%
1/1/2016	$76,068,713	$108,031,330	$31,962,617	70.4%	$13,760,816	232.3%
1/1/2014	$66,425,894	$102,977,109	$36,551,215	64.5%	$12,838,959	284.7%
1/1/2012	$62,496,448	$94,616,182	$32,119,734	66.1%	$11,623,693	276.3%
1/1/2011	$63,751,707	$90,519,644	$26,767,937	70.4%	$12,385,617	216.1%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retirement in Past Years										
Superannuation	11	8	10	11	8	3	6	10	14	4
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	1	0	2	0	0	0	0	0	0
Total Retirements	12	9	10	13	8	3	6	10	14	4
Total Retirees, Beneficiaries and Survivors	291	292	290	290	289	280	278	277	281	276
Total Active Members	269	270	268	262	268	274	266	278	282	288
Pension Payments										
Superannuation	$3,644,898	$3,857,241	$4,011,265	$4,046,316	$4,201,423	$4,277,691	$4,251,372	$4,312,074	$4,585,279	$4,739,217
Survivor/Beneficiary Payments	291,992	291,574	329,937	331,578	358,001	354,553	408,020	424,797	410,416	437,084
Ordinary Disability	72,042	83,321	74,922	69,012	70,572	70,758	38,461	37,487	34,758	14,964
Accidental Disability	591,623	616,102	650,788	656,892	698,380	706,569	690,860	686,197	693,997	701,797
Other	564,386	564,116	646,307	791,241	809,823	819,315	802,024	780,359	747,792	798,217
Total Payments for Year	$5,164,941	$5,412,354	$5,713,219	$5,895,039	$6,138,199	$6,228,886	$6,190,738	$6,240,914	$6,472,243	$6,691,279

Appendix A

Complete Board Response to Finding 1 - Regular Compensation

The Board staff has always worked with and attempted to educate the Town, School and Housing Authority payroll departments as to what constitutes regular compensation and what should be excluded. As you know, while the definition of regular compensation is set forth in M.G.L. c. 32, § 1 and 840 CMR 15.03, it has always been a highly litigated area in the retirement law and the guidance that PERAC has provided has been most helpful, although not without some controversy, and there have been times in the last several years in which the PERAC guidance has been challenged and overturned (Pelonzi and Vemava) and to this day the litigation continues on the Vernava case and the O'Leary case involving unused and cashed in vacation time. The Board recognizes and acknowledges that the guidance offered is done in good faith, and from time to time there will be good faith disagreements as to how the law is to be correctly interpreted.

As a general response to the regular compensation findings, the Board agrees that the one-time payments that are not regular and recurring should be excluded from regular compensation, as well as the hours paid beyond the normal work schedule. With respect to the on call or so- called "beeper pay," the Board recognizes that "beeper pay" is regular compensation when it is evenly distributed among eligible employees, and the Board staff will continue to work with the payroll staff to insure they understand the distinction and deduct retirement contributions where appropriate. The Board staff will also seek to determine who has received beeper pay that is regular compensation and seek to recoup the missing deductions.

Finally, the Board acknowledges that there have been payments made to some employees that were of indeterminate status and the Board will continue to work with the Town to identify the payment's purpose and ask the town to create a code legend to ensure that payments that are deemed to be regular compensation have retirement deductions withheld.

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