Middlesex County Retirement System

Ayer Board of Selectman Meeting

May 19, 2015
Presentation Topics

- Retirement Board Overview
- System Eligibility and Enrollment
- Assets and Investments
- Contributions and Benefits
- Retirement Benefit Payments
- Pension Reform Overview
- Social Security and the MA Public Pension
Massachusetts is 1 of 15 “non-Social Security states” – neither public employees nor public employers participate in or contribute to Social Security (6.2%)

Since 1986, public employees and public employers contribute to the Medicare portion of FICA (1.45%)

Social Security benefits of Massachusetts public retirees earned from non-public employment are subject to the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)
104 contributory retirement systems within the Commonwealth of Massachusetts

Chapter 32 of the General Laws provides the public employee “retirement plan,” and sets forth the benefits, contribution requirements, investment and accounting structure for all retirement systems.

Retirement systems are administered by retirement boards consisting of 5 members.
# The Middlesex County Retirement Board

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Thomas F. Gibson</td>
</tr>
<tr>
<td>Advisory Council Member</td>
<td>Brian P. Curtin</td>
</tr>
<tr>
<td>Elected Member</td>
<td>Ed McLean, Jr.</td>
</tr>
<tr>
<td>Elected Member</td>
<td>John Brown</td>
</tr>
<tr>
<td>Appointed Member</td>
<td>Robert Healy</td>
</tr>
</tbody>
</table>

[www.middlesexretirement.org](http://www.middlesexretirement.org)
The Middlesex County Retirement Board

Meetings
- Held monthly or more as may be required
- Meetings and agendas posted on website

Governing Statute
- Chapter 32 of the Massachusetts General Laws

Fiduciary Responsibility
- Management of the Middlesex County Retirement System

Oversight
- The Public Employee Retirement Administration Commission ("PERAC")
System Eligibility and Enrollment
System Membership

- Approximately 9,000 active employees, 5,000 retired/survivor/beneficiary members, and 3,000 inactive members.

- 71 member units, including 31 towns, 20 housing authorities, 9 school districts, 9 water districts, and the East Middlesex Mosquito Control Project.
Town of Ayer Membership

- 92 Active Members (current employees) (as of 1/1/14)
- 75 Retired Members (including beneficiaries) (as of 1/1/14)
- 31 Inactive Members (8 with vested deferred retirement rights)
System Eligibility and Enrollment

Effective September 1, 2010:

- **Permanent** employees must be regularly employed in a permanent position for a minimum of 20 hours per week and earning a minimum of $5,000 per year.

- **Temporary** employees must be regularly employed in a position for a minimum of 20 hours per week for a period of six consecutive months, and earning a minimum of $5,000 per year.

- Upon establishment of membership, members are allowed to purchase prior non-membership service.
System Eligibility and Enrollment

Effective September 1, 2010:

Employees of all member units of the Middlesex County Retirement System who are employed less than 20 hours per week are ineligible for membership

Employees, elected and appointed officials of all member units of the Middlesex County Retirement System who earn less than $5,000 per year are ineligible for membership
System Eligibility and Enrollment

- Employees who are ineligible for membership in the system must contribute to a deferred compensation plan or other similar plan under the Omnibus Budget Reconciliation Act (OBRA).

- Employees of a member unit which has accepted G.L. c. 32 CANNOT contribute to Social Security.
Creditable Service

Effective September 1, 2010

- Members are credited with one year of service for each year of employment of not less than 20 hours per week, or yearly proportion thereof.

- If the member’s hours of employment fall below 20 hours per week, members are credited with one-half year of creditable service, or yearly proportion thereof.
Assets and Investments
System Assets

$1,073,136,128 Billion in Assets as of 12/31/14

Assets are accumulated from three sources:
- Members’ Contributions
- Governmental Appropriations
- Investment Returns

Assets invested through the Pension Reserves Investment Management (PRIM) Board
Assets Derived from 3 Sources

Total Massachusetts Pension Fund Receipts – 1993 to 2012:

Middlesex County Retirement Fund
Asset Allocation as of December 31, 2014

Total Market Value = $ 1,073,136,128 Billion

- PRIT Core Fund
  - $1,003,799,871
  - 93.54%
- Real Estate
  - $14,673,599
  - 1.37%
- Private Equity
  - $9,453,056
  - 0.88%
- Cash
  - $45,209,604
  - 4.21%
PRIT Core Fund Asset Allocation Targets - Adopted February 11, 2015

- Global Equities, 40.0%
- Private Equity, 10.0%
- Fixed Income, 13.0%
- Value-Added Fixed Income, 10.0%
- Real Estate, 10.0%
- Hedge Funds, 9.0%
- Timber/Natural Resources, 4.0%
- Portfolio Completion Strategies, 4.0%
- Timber/Natural Resources, 4.0%
- Hedge Funds, 9.0%
- Portfolio Completion Strategies, 4.0%

Return/Risk:
- 5-7 Year Expected Return: 6.8%
- 30-Year Expected Return: 7.9%
- Risk (Standard Deviation): 12.6%
- Sharpe Ratio: 0.40
Asset Growth – 1995 to 2014
Year End Market Value in Millions

Market Value

End Market Value in Millions 376 424 476 515 576 574 548 511 545 596 633 716 791 772 781 879 1000 1073
Middlesex County Retirement System
Calendar Year Returns
1995 to 2014

Actuarial Target
8.500% prior to 1/1/02
8.250% as of 1/1/02
8.125% as of 1/1/10
8.000% as of 1/1/12
7.875% as of 1/1/14
Investment Policy Statement

The Investment Policy Statement of the Massachusetts Pension Reserves Management Board can be found at www.mapension.com.
Town of Ayer Contributions and Benefits
Prior to 1988, retirement appropriations were on a "pay as you go" basis – as employees retired, the employer would begin to contribute towards their retirement.

The 1987 pension reform required retirement systems to be "fully funded" within 40 years, or by 2028 (extended in 2010 to 2040).

Employee contributions were repeatedly increased (see next slide); Employers were now required to make scheduled payments towards the unfunded liability based upon a valuation of the retirement system.
Employees contribute a percentage of “regular compensation” to the retirement system.

### Membership Date | Rate
--- | ---
Prior to 1/1/75 | 5%
After 1/1/75, prior to 1/1/84 | 7%
After 1/1/84, prior to 7/1/96 | 8%
After 7/1/96 | 9%

Employees who established membership after 1/1/79 contribute an additional 2% of compensation in excess of $30,000.
System Valuation

A system valuation is a "snapshot" comparison of the liabilities for current and future retirement payments with the system’s assets (i.e., employer and employee contributions credited with investment earnings).

The valuation develops:

1. a “normal cost” - the liability for amounts expected to be earned in the current year
2. an “accrued liability” - the liability associated with employees’ past service
3. an “unfunded liability” - the amount by which the accrued liability exceeds the system’s assets
Funding Schedule

- The valuation results in the establishment of a funding schedule, i.e., expected annual payments to fully fund the System by 2035.

- The funding schedule requires that each year a payment is made to reflect the employer’s normal cost as well as a portion of the remaining unfunded liability.

- The funding schedule is revised every two years to update asset and liability amounts for the system and for each individual member unit.
2014 System Valuation

The Retirement Board worked with its actuary, The Segal Company, with further input from its Advisory Council and the Public Employee Retirement Administration Commission (PERAC), to set the current funding schedule.

The funding schedule is designed to fully fund the Retirement System within 20 years, or by 2035.

The funding schedule has received required statutory approval from PERAC.
Utilized updated mortality tables to reflect increased longevity of retirees

Investment return assumption (discount rate) was further reduced from 8.000% to 7.875%

Salary increase assumptions were reduced from 4.75% to 4.25% for Group 1, and from 5.25% to 4.75% for Group 4

Assumption changes resulted in $44.5 million increase in accrued liability, and $2.9 million reduction in normal cost
2014 System Valuation

- Required Fiscal Year 2016 System Appropriation: $100,667,294

- Town of Ayer Appropriations:
  - FY2015: $1,370,267
  - FY2016: $1,368,991 (-0.09%)
  - FY2017: $1,456,839 (6.42%)

- Member unit FY16 appropriations are due one-half on July 1 and one half on January 1; if paid in full on July 1 a discount is applied: ($1,343,292)
Town of Ayer FY 2016 Appropriation

Fiscal Year 2016: $1,368,991

- FY16 Normal Cost (5.02% of payroll): $275,916
- Payment on Unfunded Liability FY16: $1,060,055
  (Total Unfunded Liability: $16,875,249)
- Payment on 2002 and 2003 ERI: $33,030
- Active member’s expected contributions: $493,865

The 2014 System Valuation can be viewed on our website: www.middlesexretirement.org.
Retirement Benefit Payments
## MCRS Benefits Summary – 12/31/14

<table>
<thead>
<tr>
<th>Type of Benefit</th>
<th># of Recipients</th>
<th>Annual Payment</th>
<th>Median Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 5 – Superannuation</td>
<td>4,129</td>
<td>$98,508,260</td>
<td>$17,974</td>
</tr>
<tr>
<td>Section 6 – Ordinary disability</td>
<td>76</td>
<td>1,347,316</td>
<td>$16,186</td>
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<tr>
<td>Section 7 – Accidental disability</td>
<td>378</td>
<td>$13,563,411</td>
<td>$32,502</td>
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<tr>
<td>Termination Allowance</td>
<td>18</td>
<td>$368,671</td>
<td>$18,514</td>
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<tr>
<td>Section 9 – Accidental death</td>
<td>89</td>
<td>$2,579,550</td>
<td>$25,618</td>
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<tr>
<td>Section 12 Option C – Retiree survivor</td>
<td>225</td>
<td>$3,058,734</td>
<td>$12,110</td>
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<tr>
<td>Section 12(2)(d) – Active member survivor</td>
<td>198</td>
<td>$1,881,828</td>
<td>$6,556</td>
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<tr>
<td>Section 12B</td>
<td>2</td>
<td>$12,186</td>
<td>$6,093</td>
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<tr>
<td>Section 101 – Survivor of pre-1997 disability retiree precluded from selecting Option C</td>
<td>76</td>
<td>$828,688</td>
<td>$10,130</td>
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<tr>
<td>Accidental Death 100</td>
<td>2</td>
<td>$143,977</td>
<td>$71,988</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>5,193</strong></td>
<td><strong>$122,292,621</strong></td>
<td><strong>$18,286</strong></td>
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</table>
## Town of Ayer Benefits Summary – 12/31/14

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<th>Type of Benefit</th>
<th># of Recipients</th>
<th>Annual Payment</th>
<th>Median Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 5 – Superannuation</td>
<td>45</td>
<td>$881,528</td>
<td>$16,063</td>
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<tr>
<td>Section 6 – Ordinary disability</td>
<td>5</td>
<td>$57,674</td>
<td>$11,896</td>
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<tr>
<td>Section 7 – Accidental disability</td>
<td>11</td>
<td>$357,759</td>
<td>$30,563</td>
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<tr>
<td>Section 9 – Accidental death (this person is also an Option C survivor)</td>
<td>1</td>
<td>$31,938</td>
<td>$31,938</td>
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<tr>
<td>Section 12 Option C – Retiree survivor</td>
<td>13</td>
<td>$130,928</td>
<td>$8,380</td>
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<tr>
<td>Section 12(2)(d) – Active member survivor</td>
<td>2</td>
<td>$14,748</td>
<td>$7,374</td>
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<tr>
<td>Section 101 – Survivor of pre-1997 disability retiree precluded from selecting Option C</td>
<td>2</td>
<td>$19,964</td>
<td>$9,982</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
<td><strong>$1,494,539</strong></td>
<td><strong>$15,550</strong></td>
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</table>
## Superannuation Retirees as of 12/31/14

<table>
<thead>
<tr>
<th>Salary Range</th>
<th>Town of Ayer</th>
<th>Middlesex County Retirement System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $9,999</td>
<td>13</td>
<td>1,105</td>
</tr>
<tr>
<td>$10,000 to $19,999</td>
<td>12</td>
<td>1,158</td>
</tr>
<tr>
<td>$20,000 to $29,999</td>
<td>12</td>
<td>684</td>
</tr>
<tr>
<td>$30,000 to $39,999</td>
<td>4</td>
<td>406</td>
</tr>
<tr>
<td>$40,000 to $49,999</td>
<td>3</td>
<td>335</td>
</tr>
<tr>
<td>$50,000 to $59,999</td>
<td>1</td>
<td>210</td>
</tr>
<tr>
<td>$60,000 to $69,999</td>
<td>0</td>
<td>94</td>
</tr>
<tr>
<td>$70,000 to $79,999</td>
<td>0</td>
<td>66</td>
</tr>
<tr>
<td>$80,000 to $89,999</td>
<td>0</td>
<td>29</td>
</tr>
<tr>
<td>$90,000 to $99,999</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Greater than $100,000</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>4,129</strong></td>
</tr>
</tbody>
</table>
Retirement Benefit Assumptions

If:
- Group 1 member
- Hired after 7/1/96
- Long-term employee
- Retire under superannuation
- Investment return assumption met

Then:
- Employee paying most, if not all, of benefit
Pension Reform Overview
Three Waves of Pension Reform

- Chapter 21 of the Acts of 2009
- Chapter 131 of the Acts of 2010
- Chapter 188 of the Acts of 2010
- Chapter 176 of the Acts of 2011
Chapter 21 of the Acts of 2009

- Redefined and restricted “regular compensation”
- Prohibited creditable service for employees and officials earning under $5,000
- Changed the retirement calculation for employees with dual service in separate pension systems
- Eliminated “working out of grade” disability calculations
- Eliminated certain benefits for elected officials
Chapter 131 of the Acts of 2010

- Capped pensionable earnings at 64% of the federal earnings limitation codified in U.S.C. 401(a)(17)

- The 2014 federal compensation limit of $260,000 caps pensionable earnings for members entering the system after January 1, 2011 to $166,400, with a maximum retirement benefit of $133,120

- Provided a local option to increase the minimum allowance paid to certain surviving spouses of disability retirees from $6,000 to $9,000 – Adopted by MCRB
Chapter 188 of the Acts of 2010

- Provided a **local option** to increase the $12,000 current base amount of the annual cost-of-living adjustment for retirees in increments of $1,000 – *COLA base increased by MCRB to $14,000*

- The COLA base has been increased to $13,000 for all retired state employees and retired teachers, and increased for retirees of over 2/3 of all municipalities (Range: $13,000 - $18,000)

- Retirement Board is undertaking an actuarial review of the impact of raising the COLA base
Chapter 176 of the Acts of 2011

- Increased Normal Retirement Age (e.g., 65 to 67)
- Increased Average Annual Compensation (AAC) factor from 3 to 5 years
- Increased early retirement reduction (i.e., reduced age factors for calculation)
- Increased interest on service purchases
- Eliminated termination retirement allowances
- Enacted anti-spiking provisions
Actuarial Plan Cost Reduction Estimate

- Increased AAC from 3 to 5 years: 3.5% - 4.0%
- Increased Retirement Age: 4.0% - 5.0%
- Reduced Age Factors: 4.0% - 5.0%
- Combined Impact: 11.0% - 14.0%

Source: PERAC
Cost Implications of 2011 Benefit Reforms

- Changes are prospective for members entering the retirement system on or after April 2, 2012

- Cost savings will be gradual – no immediate relief in retirement appropriations

- In estimating long term impact, actuaries will assume entire membership is impacted by prospective provisions

- Long term savings have been estimated at between $5 – 6 Billion
Social Security and the MA Public Pension
Windfall Elimination Provision (WEP)

- Impacts individuals who are eligible for Social Security (i.e., “have 40 credits”) AND who will receive a retirement allowance from a Massachusetts public pension plan

- Will result in the application of a formula which lowers the monthly Social Security retirement benefit

- Application of the WEP formula will not completely eliminate the Social Security benefit
Exceptions to the WEP

- At age 62 on January of 1986
- Eligible to receive public pension on January of 1986
- 30 years of “substantial earnings” under Social Security
- If any one of these conditions exist, the WEP will not apply
Social Security and the MA Public Pension

Government Pension Offset (GPO)

- Impacts individuals who are eligible for benefits based upon a spouse’s Social Security AND are receiving a Massachusetts public pension

- Social Security applies a formula that will reduce the spousal payment by $\frac{2}{3}$ of the monthly public pension amount

- Could eliminate Social Security benefit completely
Social Security and the MA Public Pension

Government Pension Offset (GPO) - Example

- Spouse receives a public pension of $900 per month
- Spouse would otherwise be entitled to $500 per month from Social Security on her spouse’s Social Security
- Because 2/3 of $900 is $600, and $600 is greater than $500, no spousal benefits will be paid.
Avoidance of WEP and GPO

WEP and GPO will not be imposed until the payment of the public pension begins; therefore:

If a worker reaches “full retirement age” (65, 66 or 67, depending on DOB) and is still working in the public sector position, the full Social Security benefit is payable without imposing WEP or GPO, because:

There is no earnings limitation at “full retirement age”
WEP and GPO information should be obtained directly from the Social Security Administration.

The MCRS website provides the link, or go to SOCIALSECURITY.GOV

Go to: Information For on the website front page
Click: Government Employees in the drop down menu
Click: WEP Calculator and/or GPO Calculator
Friendly Reminder

Please utilize the system’s website as a resource for necessary information, forms and updates to the public pension law:

www.middlesexretirement.org
Thank You For Your Time And Attention