

# ESSEX REGIONAL RETIREMENT SYSTEM

## NEWSLETTER FOR RETIREES AND MEMBERS

FALL 2016



### HOW DOES MY GROUP CLASSIFICATION AFFECT MY ELIGIBILITY TO RETIRE?

When you become a member of the retirement system, you are classified into a specific group. These groups are established by statute. Which group you are classified into may not only affect your eligibility to retire, but also the calculation of your superannuation or ordinary disability retirement benefit. A summary of some of the requirements that apply to the group classification of members of ERRS are described below. A member who has a question regarding the effect of their group classification on their retirement eligibility should feel free to contact the retirement system staff for assistance.



**Group 1** members are officials and employees who are clerical, administrative and technical workers, laborers, mechanics, and all other employees not otherwise classified. **Group 2** members are employees with certain hazardous occupations defined by statute, and **Group 4** members are public safety officers such as police officers and firefighters.

For members of Groups 1, 2 and 4, if your membership began prior to January 1, 1978, upon attaining age 55 you are eligible to retire. If your membership began on or after January 1, 1978 and you are a member of Group 1 or Group 2, you must have at least ten years of creditable service and be age 55 or older to be eligible to receive a retirement allowance. Generally speaking, you are eligible to retire at any age if you have twenty years of service. If you are a member of Group 4 and your membership began on or after January 1, 1978, you are eligible to retire at age 55.

Pension reform changed many of the eligibility requirements for those who became members of a public retirement system after April 2, 2012. For instance, if your position is classified in **Group 1**, you must have at least ten years of creditable service, and be age 60 or older to be eligible to receive a superannuation retirement allowance. If your position is classified in **Group 2**, you must have at least ten years of creditable service and be age 55 or older, to be eligible to receive a superannuation retirement allowance. If your position is classified in **Group 4** and you are age 55 or older, you are eligible to receive a superannuation retirement allowance. Members whose positions are assigned to Groups 2 and 4 must perform the duties of those positions for the twelve months immediately prior to termination or retirement.

As you may know, your retirement allowance will be calculated based on your age, which is given a statutory age factor, your years of creditable service and your highest consecutive three or five year salary average dependent upon whether you became a member on or after April 2, 2012. If you are eligible for a retirement benefit and wish to initiate the retirement application process, you need to send the date on which you wish to retire in writing to ERRS. We ask that you notify us at least 30 days in advance of your retirement date. You are also responsible for notifying your employer of your retirement date and providing a copy of your retirement application to your employer at the same time you file it with the ERRS.

#### Retirement Calculation

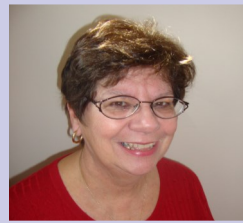
Age at date of retirement  
x  
Years of **service**  
x  
The 3 or 5 year **salary** average  
=  
**Retirement Benefit!**



## ERRS BOARD MEMBERS



**H. Joseph Maney** is one of two Board members who are elected by all of the retirees and members of ERRS. Mr. Maney currently serves as Chair of the Board and formerly served as the Town Administrator in Lynnfield. You can contact Mr. Maney at [info@essexrrs.org](mailto:info@essexrrs.org). Mr. Maney's term expires on December 1, 2019.



**Susan J. Yaskell** is one of two Board members who are elected by all of the retirees and members of ERRS. Ms. Yaskell currently serves as Vice Chair of the Board and previously served as the Town Accountant in West Newbury. You can contact Ms. Yaskell at [syaskell@essexrrs.org](mailto:syaskell@essexrrs.org). Ms. Yaskell's term expires on December 1, 2019.



**Alan J. Benson** serves as the First Member of the Board, who is chosen by a weighted vote of the chief executives and chief administrative officers of the retirement system. Mr. Benson is the Town Administrator in Boxford and can be reached at [abenson@essexrrs.org](mailto:abenson@essexrrs.org). Mr. Benson's term expires on December 1, 2017.



**Kevin A. Merz** is the Second Member of the Board and is elected by the ERRS Advisory Council. Mr. Merz is the Treasurer-Collector in Ipswich and also serves as Chair of the Advisory Council. You can reach Mr. Merz directly at [kmerz@essexrrs.org](mailto:kmerz@essexrrs.org). Mr. Merz's term expires on December 1, 2018.



**Vincent R. Malgeri** is the Fifth Member of the ERRS Board and is appointed by his fellow Board members. Mr. Malgeri is an attorney and also serves as the Administrator of the Greater Lawrence Sanitary District Retirement Board. You can reach Mr. Malgeri directly at [vmalgeri@essexrrs.org](mailto:vmalgeri@essexrrs.org). Mr. Malgeri's term expires on December 12, 2020.

**Suggestions Welcome:** *ERRS attempts to include information in each newsletter which addresses issues or concerns for our retirees and members. Many of the issues discussed in these newsletters are the result of subjects that come up in the ordinary course of business and which may affect your benefit or retirement planning. If you would like to see a particular subject or issue addressed in an upcoming newsletter, please send your thoughts to:*

***[info@essexrrs.org](mailto:info@essexrrs.org)***

***Your retirement benefit is calculated based on your regular compensation earnings. What exactly is regular compensation?***



Regular compensation is wages you have earned that are subject to retirement withholdings. Not all earnings are considered regular compensation and only those earnings that are considered regular compensation are used to calculate your retirement benefit. Examples of what is not included as regular compensation are: Overtime, bonus pay, severance pay, payments for unused sick time, vehicle or clothing allowances.

This year the Board adopted a policy defining what constitutes regular compensation for so-called “second positions.” This policy applies only to wages earned in a position that is in addition to the position which qualifies the individual for membership.



Wages paid to a member who is performing duties for any employer within the retirement system in a second position may be considered as regular compensation, even if the second position, in and of itself, would not qualify the individual for membership. In order to be considered regular compensation, however, the payments made to a member in a second position must be regular, recurring and predictable. For instance, the second position must have a set schedule.

Further, in order for payments made to the member to be considered regular compensation, the second position must be a permanent assignment, meaning that there is no predetermined end date, unless such end date shall be established by law. Wages paid to reserve or intermittent police officers and call firefighters who are paid on a per call basis and who do not have a permanent schedule of indefinite duration are not considered regular compensation.

The Board recognizes that the definition of regular compensation has been evolving since the passage of Chapter 21 of the Acts of 2009 (“Pension Reform”) and that this policy may prohibit practices previously permitted. Therefore, any active or inactive member of the Essex Regional Retirement System whose wages are no longer considered regular compensation pursuant to this policy, will receive a refund of any deductions withheld from such wages dating from the July 1, 2009 effective date of the Pension Reform Act. Any such refund will be considered a return of erroneous deductions and will be refunded directly to the member subject to the required 20% withholding of federal tax.

### **ERRS BOARD MEMBERS RE-ELECTED**

The incumbent Third and Fourth Board members, H. Joseph Maney and Susan J. Yaskell, were the only candidates who submitted nominations for these positions. In accordance with the governing statute for ERRS, the Advisory Council determined that Mr. Maney and Ms. Yaskell were re-elected as the Third and Fourth members. Contact information for all of the Board members is available on page two of this newsletter.



## ***BENEFICIARY SELECTION OPTIONS FOR MEMBERS***

Upon enrollment into the retirement system, members are provided with a beneficiary form. A member has options from which to choose in order to provide benefits to your survivors if you should pass prior to retirement. But you must complete a beneficiary form and submit it to the retirement system in order for your wishes to be followed. Please read the beneficiary form carefully before completing it and we recommend you speak with a retirement system staff person if you have any questions regarding your options. During your membership in the retirement system, you may change your beneficiary selection at any time by filing a new form.

If a member wishes to have a lump sum paid to a designated beneficiary or beneficiaries, they must complete the Beneficiary Selection Form. If the member has not designated an Option D beneficiary, the member's accumulated deductions will be paid in a lump sum to the beneficiary or beneficiaries based on the allocations provided on the Beneficiary Selection Form.

If a member wishes to have a monthly retirement benefit paid out to their beneficiary, they must fill out the Choice of Option D Beneficiary Form. Only a spouse, former spouse who has not remarried, child, mother, father, brother or sister is eligible to be designated as an Option D beneficiary.

If a member does not make an Option D designation, the member's spouse can still elect to receive the Option D allowance, or can request a return of the member's accumulated retirement deductions, provided:

- ◆ The member must have completed at least two years of creditable service;
- ◆ The member and spouse must have been married for at least one year;
- ◆ The member and spouse must have been living together at the time of death;
- ◆ If the member and spouse were not living together at the time of death, the Board must find that they were living apart for justifiable cause;
- ◆ ***The rights of a eligible surviving spouse will always supersede any other person nominated as the Option D beneficiary. The eligible spouse will have 90 days from the date of notification from the retirement board to elect the Option D benefit.***

Please find below a summary of the Option D selection:

- ◆ Option D provides a monthly benefit that a beneficiary would have received under Option C had the member retired on the date of death.
- ◆ If the member is under age 55, the member's age is "bumped up" to age 55 under Option D. (For members joining after April 2, 2012, the age is "bumped up" to 60.)
- ◆ A member can designate an Option D beneficiary at any time.
- ◆ Only one Option D beneficiary may be named and only a spouse, former spouse who has not remarried, child, mother, father, brother or sister of the member is eligible to be designated as an Option D beneficiary.
- ◆ **The Option D beneficiary must receive the survivor benefit allowance.**
- ◆ ***If the member's spouse is designated as the Option D beneficiary, the spouse must receive the monthly retirement allowance and may not chose a one-time, lump sum return of the member's accumulated deductions.***
- ◆ Option D also provides benefits to eligible dependent children.
- ◆ Option D survivor benefits are available to inactive members. Inactive members are not eligible for the dependent child benefit under Option D.



## ***BENEFICIARY SELECTION OPTIONS FOR RETIREEES***

When completing your application for retirement, you will choose from one of three beneficiary options. The decision on which option you select cannot be changed after your effective retirement date. To assist you in preparing for this decision, a summary of the three beneficiary options are listed below.

**Option A:** A member may choose not to designate a beneficiary by selecting Option A. Under Option A, a member will receive a full retirement allowance in monthly payments as long as the member lives. However, all allowance payments will cease upon the member's death and no future allowance payments will be made, nor will a return of any amount of money remaining in the member's annuity savings account be made to anyone.

**Option B:** Option B provides a member with a lifetime allowance which is approximately 1% to 5% less per month than the allowance payable under Option A. Under Option B, a member may designate as many beneficiaries they desire. The member may designate an individual, individuals, a charity, an institution, or virtually any entity or entities. Although the choice of an option may not be changed after the date a retirement allowance becomes effective, a retiree may change his or her Option B beneficiary designation at any time. This is the "default" option assigned if the member fails to select an option by the effective date of their retirement.

**Option C:** Under Option C, a member's retirement allowance will be approximately 7% to 15% less than he or she would receive under Option A. Upon the death of the retiree, the designated beneficiary will be paid a monthly allowance for the rest of their life. That allowance will be equal to two-thirds of the allowance which was being paid to the retiree at the time of his or her death. Only one beneficiary may be named under Option C. The eligible beneficiaries are limited to a member's spouse, the member's former spouse (provided he or she has not remarried at the time the Option C benefit becomes payable to the member), the member's child, parent, or sibling. Once a member's retirement has become effective, the Option C beneficiary designation cannot be changed.

**Option C "Pop Up":** If the Option C beneficiary dies before the member, the member's retirement allowance will "Pop Up" and the member will thereafter be paid the full retirement allowance he or she would have received had he or she originally selected Option A. This higher benefit will be paid for the remainder of the member's lifetime. However, the member is not permitted to choose another beneficiary.

An ERRS retirement counselor will work with you to answer your questions regarding your option selection as you prepare your retirement paperwork. In addition, you may access the **Guide to Survivor Benefits** that will explain these options further by going to the retirement system website at [www.essexregional.com](http://www.essexregional.com) and clicking on the Retirees tab at the top of the Home Page. Please also call (978-739-9151) or email ([info@essexregional.com](mailto:info@essexregional.com)) at any time if you have questions regarding how your option selection will affect your retirement benefit.







## **RETIREMENT SYSTEM ODDS AND ENDS**

**Annual Membership Statements:** In March of 2017, all active and inactive members will receive their annual statement with their account information. If you see anything on your membership statement that needs to be corrected, please contact the retirement system at your earliest convenience. It is very important that the retirement system be notified any time there is a change in your job status or position (i.e. a switch from part-time to full-time.) Your employer should file such notices with the retirement system at the time of any change, but members should also check with us to confirm that any changes have been properly recorded so that the information on your member statement is accurate. This will help insure that your records properly reflect your service and your future retirement benefit. Your assistance in helping us keep your information current is greatly appreciated.



**Important  
Information**

**Insurance After Retirement:** Although ERRS will withhold your monthly premiums from your retirement benefit, your insurance is arranged through your last employer. You must contact the designated person at your last employer for your insurance coverage prior to your effective retirement date. Your employer will contact ERRS with the proper monthly insurance premium amount to be withheld from your benefit. Members should also know that insurance premiums withheld from your monthly retirement benefit are a post-tax deduction.



**Retirement Accounts and Inactive Members of the Retirement System:** Members of ERRS who are no longer employed in a governmental unit and who leave their funds on deposit with the retirement system should be aware that your account will not receive interest after two years. Members who have been inactive for more than ten years will have their account transferred to the Pension Reserve Fund. If you do request a refund of your account and you subsequently become a member of a public retirement system in Massachusetts, you can purchase your past service. However, you will come back as a new member and be governed by the post April 2, 2012 pension reform rules.

**ERRS INVESTMENT REPORT:** According to the second quarter 2016 investment performance report compiled by Dahab Associates, the ERRS investment consultant, on June 30, 2016, the retirement system's portfolio was valued at \$371,504,289. For the second quarter of 2016, the fund recorded a net withdrawal of \$8,679,926, which overshadowed the fund's net investment return of \$6,679,926.

For the period since June 2011, if the total fund had returned a compounded annual rate of 8.0% it would have been valued at \$380.2 million, or \$8.7 million more than the actual value as of June 30, 2016. As of 6/30/2016, 92.9% of ERRS assets are invested in the Public Reserves Investment Trust (PRIT) Fund, 3.9% of the assets are invested in private equity funds, and 1.2% are invested in real estate funds. Cash assets comprise 2.0% of the portfolio.





## ERRS 2017 ADMINISTRATIVE BUDGET REDUCED

*FIFTH TIME IN SIX YEARS ADMINISTRATIVE COSTS  
CUT*

In recent years, the ERRS Board has made controlling administrative costs a priority. Through effective management, competitive procurements, and innovative programs, the retirement system has been able to not only keep costs under control, but to actually and significantly **reduce** administrative expenditures compared to years past. At the ERRS Advisory Council meeting held on September 28, 2016 at Boxford Town Hall, the Executive Director, Charles Kostro, presented to the representatives of the retirement system's units the proposed 2017 administrative budget. Mr. Kostro described the 2017 budget as the fifth time in the last six years that ERRS has reduced administrative costs from year to year. He explained that even while reducing budgets almost every year, ERRS still has finished each year from 2011 to 2015 under the approved budget.

Year	Budget	Change
2012	1,086,523	-4.6%
2013	1,059,698	-2.5%
2014	1,047,664	-1.1%
2015	1,035,976	-1.1%
2016	1,063,081	2.6%
2017	1,055,635	-0.7%

ERRS administrative budget 2012-2017

He also noted that actual expenditures through calendar year 2015, the most recently completed budget year, are still less than the total administrative costs spent by the retirement system in each of the years from 2007 through 2009. Mr. Kostro pointed out that if ERRS had level-funded its administrative cost using the total cost from 2009, it would have spent \$1.7 million more in the aggregate to administer the retirement system from 2010 through 2015. In other words, since administrative costs come from the retirement system's assets, ERRS' efforts to reduce administrative costs over the last six years, has added \$1.7 million to its investments.

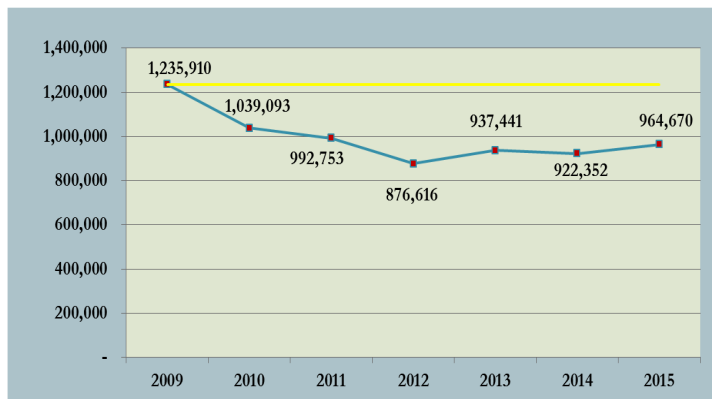


Chart: ERRS actual administrative spending from 2009 to 2015.

Mr. Kostro advised that it is becoming more challenging each year to reduce the administrative budget while still meeting new mandates and the rising cost of essential functions. But the Board and staff at ERRS remain committed to operating the retirement system at the highest level of service while incurring the lowest possible cost.

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**Danvers, MA 01923**



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*Disclaimer: This newsletter is intended as a guide for our retirees and members. The contents are for informational purposes only. Regardless of any statement contained herein, the benefits due to members of the Essex Regional Retirement System shall be governed by statute and/or regulation. This newsletter is not intended to confer any right or benefit that is not authorized by statute and/or regulation.*