

# The Northampton Retirement Board

## NEWSLETTER

July 2018

*News for our retirees and members-in-service*

### Large gains for Massachusetts pension funds in 2017

Record gains in the U.S. stock market helped deliver strong investment returns for Massachusetts' public pension funds in 2017. Gains among the state's 104 retirement systems ranged from 13.49% to 21.42%. After two lackluster years Northampton's retirement fund gained nearly \$20 million in 2017 to reach its highest level yet, with stocks outperforming the S&P 500 by almost 10%. A full report from our investment manager, the de Burlo Group Inc., is included in this newsletter.

### Retiree cost-of-living adjustment for FY19

The Northampton Retirement Board voted earlier this year to grant the maximum 3% retiree cost-of-living adjustment allowable under state law for fiscal year 2019. It is important to note that under the law, the increase is limited to the first \$13,000 of a retiree's annual retirement allowance. This means that the maximum annual amount any individual can receive is \$390.00. The effective date of the increase is July 1<sup>st</sup> and is payable beginning July 31<sup>st</sup>. To be eligible for the increase you must have been receiving a retirement allowance on or before June 30, 2017.

### Tom Sullivan reappointed to a three-year term

Tom Sullivan began his fourth term as the designated fifth member on the Retirement Board in February after being reappointed last year. The fifth member is appointed by the other four members of the Board and cannot be a retiree or active member of the Retirement System. Sullivan joined the Board in 2009 and currently works for the Federal Emergency Management Agency.

### Public sector earnings for retirees - How much is too much?

If you plan to continue working after you retire in a part-time capacity for Northampton or any other public municipality in the state, keep in mind that Massachusetts law places limitations on your post-retirement public sector employment. Upon retiring you are limited to earning the difference between the annual salary of the position you retired from and the amount of your annual retirement allowance. After one complete calendar year of retirement, you are permitted to earn an additional \$15,000 over that amount. If you are receiving a disability retirement allowance, these limits apply to both private and public sector employment.

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#### The Northampton Retirement Board

##### MEMBERS OF THE BOARD

- **Joyce Karpinski**  
Chairperson, Ex-Officio Member
- **Shirley LaRose**  
Elected Member
- **Michael Lyons**  
Elected Member
- **Thomas Sullivan**  
Appointed (Fifth) Member
- **Susan Wright**  
Vice-Chair, Appointed Member

##### RETIREMENT BOARD STAFF

**David Shipka**  
Administrator

**Elsie Vazquez**  
Administrative Assistant

##### CONTACTING THE OFFICE

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**If you need to...**

- ✓ Change your designated beneficiary or update your marital status
  - ✓ Update your contact info
  - ✓ Purchase military service credit (maximum of 4 years of active service) or other qualifying prior service
  - ✓ Request information on your future benefits or file for retirement
- ...or have questions  
**call us at 587-1211.**



- ✓ Your annual retiree affidavit goes out in December. Failure to return the form may result in your benefits being withheld.
- ✓ Look for your 2018 1099-R tax form to arrive by January 31, 2019.
- ✓ For annual allowance and deduction totals, save your December pay stub.
- ✓ Keep track of any post-retirement public earnings to make sure you stay within your allowable earnings limits.
- ✓ Keep us informed of changes to your address or telephone number.
- ✓ Sign up for direct deposit to ensure you receive your money quickly and securely. Each month you will receive a pay stub for your records.

In addition to these earnings restrictions, retirees may work no more than 960 hours in any calendar year at a Massachusetts municipal position. That comes out to approximately 18 hours a week over the course of a year.

You do not have to be classified as an employee for these limits to apply. In 2009 independent contractors and consultants were added to the list of positions or employment subject to the post-retirement restrictions on earnings and hours.

It is important to consider that if you exceed your limits, you are required to repay the excess earnings. If you need assistance with determining your earnings limitations please contact the Retirement Office.

*Note: At the time of this writing, legislation to increase the limit on hours is being debated by lawmakers. The House has passed a proposal that would increase the limit on hours to 1,500, while the Senate would like to move the limit to 1,200 hours. The final version of any new legislation would take effect on 7/1/2019.*

**Report from our investment manager, the de Burlo Group**

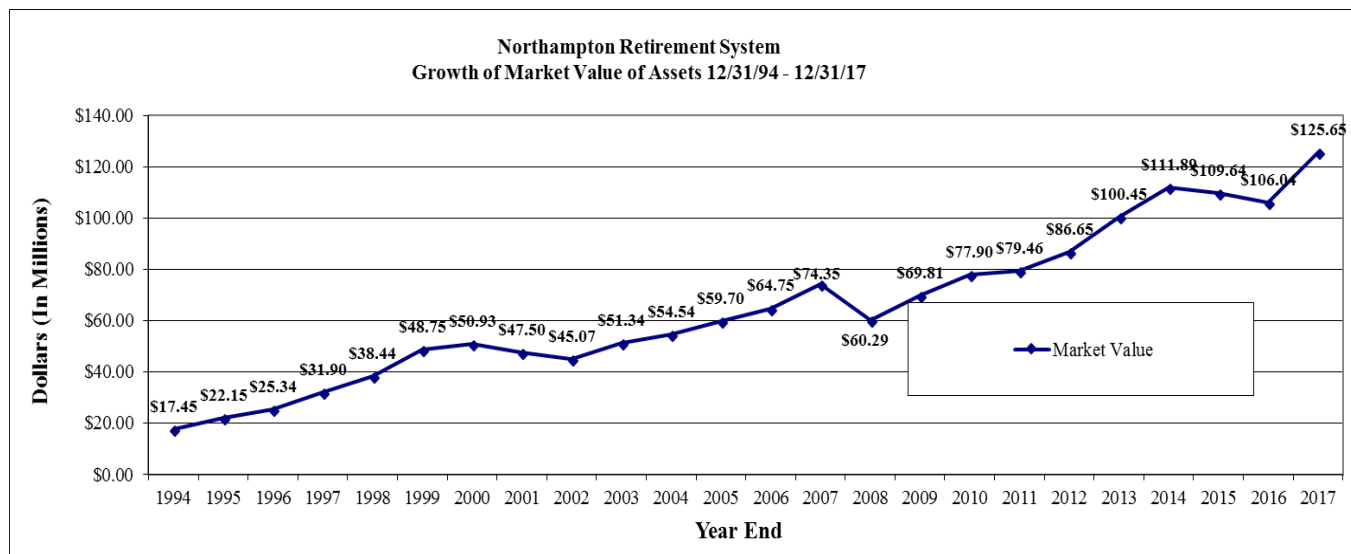
From a long-term perspective the Northampton Retirement System’s portfolio has seen impressive growth (please see the graph below). As of December 31, 2017, the portfolio has appreciated in value by a grand total of nearly 133% compared to its year end value of \$60.29 million set on December of 2008. In addition to the increase in the market value of the portfolio, a net amount of \$14.98 million has been disbursed from the portfolio over the past nine years. Consequently, over the nine-year period, investment returns have added \$80.34 million to the portfolio despite the market collapse associated with the financial market crisis of 2008 and early 2009.

Northampton ranked number 4 in the entire state over the past 5 years for investment returns. Over the past 10 year time period, Northampton ranked number 2 in Massachusetts.

The Northampton Retirement System performance during the first five months of 2018 has been quite good. Through the end of May, Northampton’s portfolio was up approximately 7.39%, compared to the performance for Pension Reserves Investment Trust (PRIT), the State’s pension fund, which was up approximately 1.14%.

For the calendar year 2017, the Northampton System performance had excellent returns, up 21.42%. In comparison, the PRIT fund appreciated by 17.66% last year. For the past five years (ending on December 31, 2017), Northampton’s assets appreciated at a compounded rate of 10.02% per year, compared to the 9.88% annual return earned by PRIT. For the past 10 years (ending on December 31, 2017), Northampton has earned 7.01% per year, compared to the 5.57% earned by PRIT over the same time period.

As the graph below shows, the System’s assets reached a new peak of \$125.65 million at the end of December, 2017, an increase of \$19.61 million over the year earlier level. Please keep in mind that there were also distributions of \$2.55 million during 2017. Therefore, the portfolio appreciated by a combined total of \$22.16 million during 2017.



Northampton’s results over the long term demonstrate the System’s sustainability. During the 33 years that PERAC has been tracking performance of Massachusetts municipal pension funds, the Northampton Retirement System has earned an annualized return of approximately 9.4%. Northampton’s annual appropriation to the Retirement System and the funding schedule projected for the System are based upon an assumed rate of return of 7.5%. The 9.4% annualized return the System has earned over the 33 years is well in excess of that.

**The Northampton Retirement System Portfolio**

The assets of the Northampton System remain well diversified as the table below shows. During the year our investment adviser increased the stock allocation slightly from 62.6% of the total portfolio to 63.0% with an emphasis on domestic stocks. They maintained the combined weighting of bonds and cash at approximately 37.0% during the year compared to the prior year.

|                         | Allocation at 12/31/17           | \$ Millions  | % of Total   |
|-------------------------|----------------------------------|--------------|--------------|
| <b>Cash</b>             | <b>Cash</b>                      | <b>0.6</b>   | <b>0.5</b>   |
|                         | Domestic Stock                   | 73.3         | 58.2         |
|                         | International Stock              | 6.0          | 4.8          |
|                         | Real Estate                      | 0.0          | 0.0          |
| <b>Equity</b>           | <b>Total Equity</b>              | <b>79.3</b>  | <b>63.0</b>  |
|                         | Domestic Bonds                   | 42.1         | 33.5         |
|                         | International Bonds              | 2.9          | 2.3          |
|                         | Below Invest. Grade              | 0.2          | 0.2          |
| <b>Fixed Income</b>     | <b>Total Fixed</b>               | <b>45.2</b>  | <b>36.0</b>  |
|                         | Private Equity & Venture Capital | 0.6          | 0.5          |
| <b>PRIT Investments</b> | <b>Total PRIT Investments</b>    | <b>0.6</b>   | <b>0.5</b>   |
| <b>Total</b>            |                                  | <b>125.7</b> | <b>100.0</b> |

*Totals may not add correctly due to rounding*

**The Financial Markets and the Economy in 2017**

There was much to celebrate at the end of 2017. U.S. stock markets posted record results during the year and volatility declined to historic lows. Specifically, the Dow Jones Industrial Average hit 71 record closes during 2017, which represents the most daily highs in any one given calendar year, ever. The Dow rose over nine consecutive months during the year, which is the longest streak of monthly gains since 1959. In 2017, the Dow posted its second largest annual gain over the past decade and the S&P 500 realized its best gain since 2013. In addition, a number of global stock markets hit multiyear highs or, in some cases, all-time record highs.

| <b>Stock/Market Markers</b> | <b>Three Months Ended 12/31/17</b> | <b>Calendar Year to Date Ended 12/31/17</b> |
|-----------------------------|------------------------------------|---|
| Dow Industrials             | 10.3%                              | 25.1%                                       |
| S&P 500                     | 6.1%                               | 19.4%                                       |
| Russell 2000                | 3.0%                               | 13.1%                                       |
| NASDAQ Composite            | 6.3%                               | 28.2%                                       |
| MSCI Emerging Markets       | 7.1%                               | 34.4%                                       |
| MSCI EAFE Index             | 3.9%                               | 21.8%                                       |
| Crude Oil                   | 16.9%                              | 12.5%                                       |
| Trade-weighted Dollar       | -0.1%                              | -8.5%                                       |
| Gold                        | 1.8%                               | 13.5%                                       |
| 2 Year Treasury             | +40 basis points                   | +69 basis points                            |
| 10 Year Treasury            | +7 basis points                    | -4 basis points                             |
| Target Fed Funds Rate       | +25 basis points                   | +75 basis points                            |

- U.S. stocks posted exceptional gains over the past year. The fourth quarter featured another quarter of strong gains, and as it turned out, large cap U.S. stocks, represented by the Dow Industrials and the S&P 500, were up 10.3% and 6.1%, respectively. The results for the entire calendar year were also outstanding, up 25.1% and 19.4%, respectively. Please note the table above for further details.
- Many technology securities continued to perform well, as represented by the NASDAQ, up nearly 6.3% during the fourth quarter. Over the past calendar year, this index was the strongest U.S. performer, up 28.2%.
- Given the strong global economy, international stocks continued to turn in good results. Emerging markets were up 7.1% over the past quarter and were up 34.4% over 2017. International stocks from countries in Europe as well as Japan, as represented by the MSCI EAFE Index, also performed well. This index was up 3.9% during the quarter and up 21.8% year to date.
- Given the steady global economic growth, oil rose 16.9% during the fourth quarter and rose 12.5% over the entire year. For the year, gold was higher by 13.5% and the U.S. dollar was down by 8.5%.

A number of stock markets rallied higher, in large part, due to the unexpected pace of corporate earnings and revenue growth during 2017. Specifically, U.S. companies posted their highest earnings growth since 2011. U.S. firms grew earnings by 14% during the first quarter of 2017, far outpacing the expected growth rate of 9%. Such good results were followed by strong earnings growth in the second and third quarters, up 10% and 6%, respectively.