



The Northampton Retirement Board

NEWSLETTER

July 2020

News for our retirees and members-in-service

COVID-19 Update

Northampton’s municipal offices closed to the public in March following Governor Baker’s State of Emergency declaration. At the time of this writing, the office of the Northampton Retirement Board continues to operate remotely. Future closures may be necessary to help stem the spread of COVID-19.

Many of our retirees, as well as active members nearing retirement, are at higher risk of developing complications from COVID-19. In an effort to minimize the threat that the coronavirus illness presents to these and other high-risk individuals, the NRB is asking members to utilize remote methods of interaction with the Retirement Office - either phone or email – until such time that the threat has passed.

The office staff is equipped to remotely respond to your retirement related needs, from benefits inquiries and consultations, to retirement filings. If you require any assistance, we look forward to your email or phone call. As always, all personal inquiries are kept confidential. *Stay Well!*

Retirement System funding progress update

Prior to the late 1980s, municipalities operated under a pay-as-you-go plan for pension obligations, meaning no contributions were set aside to cover future pension costs. It was known from the outset that the enormous cost of pre-funding the state’s pension systems would take decades to achieve. Since then, municipalities across the state have been faithfully working towards paying down their retirement liabilities.

Fully funding the city’s pension system is a long term goal. Negative market events, such as the dot-com bubble in the late 1990s, the financial crisis in 2008, and the current uncertainty surrounding the COVID-19 health crisis, will continue to pose significant funding challenges. That said, the funded level of the city’s pension plan has increased from about 40 percent thirty years ago, to about 72 percent today.

2020 Actuarial Valuation Highlights

- The market value of assets increased by 15.3 million due to positive investment returns, representing a 7.52% annual return since the 2018 valuation.
- The annual investment return target was lowered for the third valuation in a row, from 7.375% to 7.125%, to mitigate future funding shortfall potential.
- The funded liability decreased, primarily due to the reduction in the target assumption.
- Strong investment returns in 2019 helped offset the actuarial loss from 2018, leading to a slight increase in the funded ratio.

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The Northampton Retirement Board

MEMBERS OF THE BOARD

- **Joyce Karpinski**
Chairperson, Ex-Officio Member
- **Michael Lyons**
Elected Member
- **Thomas Sullivan**
Appointed “Fifth” Member
- **Susan Wright**
Vice-Chair, Appointed Member

RETIREMENT BOARD STAFF

David Shipka
Administrator

Elsie Vazquez
Member Services Assistant

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**Active members:
Call our office to...**

- ✓ Change your designated beneficiary or update your marital status.
- ✓ Update your contact info.
- ✓ Request to purchase qualifying prior municipal or military service.
- ✓ Receive information on your benefits or file for retirement.

**Retired members:
Remember that...**

- ✓ Your annual retiree affidavit goes out in December. State law requires that you return this form. Failure to do so may result in your benefits being withheld.
- ✓ Your 1099-R tax form will arrive by January 31, 2021.
- ✓ You must keep track of post-retirement public sector earnings to make sure you stay within your allowable earnings limits.
- ✓ Direct deposit is now mandatory for retirees and survivors. Call us if you need to update your deposit information.

FY20 Pension Payment Schedule

Friday, July 31, 2019
 Monday, Aug. 31, 2019
 Wednesday, Sep. 30, 2019
 Friday, Oct. 30, 2019
 Monday, Nov. 30, 2019
 Thursday, Dec 31, 2019
 Friday, Jan. 29, 2020
 Friday, Feb. 26, 2020
 Wednesday, Mar. 31, 2020
 Friday, Apr. 30, 2020
 Monday, May 31, 2020
 Wednesday, June 30, 2020

Retirement System funding progress update *(Continued)*

Below are some key figures from the most recent and past actuarial valuations:

Valuation date	1/1/2020	1/1/2018	1/1/2016
Market value of assets	\$141.4 million	\$126.1 million	\$110.0 million
Unfunded liability	\$60.8 million	\$55.9 million	\$48.7 million
Assumed rate of return	7.125%	7.375%	7.50%
Funded ratio	72%	69%	70%

Retiree cost-of-living adjustment for FY20

The Northampton Retirement Board voted to grant the maximum 3% allowable under state law for the fiscal year 2020 retiree cost-of-living adjustment. Under law, the increase is limited to the first \$13,000 of an annual retirement allowance. This means that the maximum annual amount any individual can receive is \$390. The effective date of the increase is July 1st and is payable beginning July 31st. To be eligible for the increase you must have been receiving a retirement allowance on or before June 30, 2019.

Retirement Board Update

Michael Lyons won a fifth term to the NRB after running unopposed for re-election earlier this year. Michael originally served as the city’s auditor for 19 years before retiring in 2002.

An election is currently underway to fill one of two elected seats on the NRB. Melissa Roberts-Cote resigned in May after being elected last July following Shirley LaRose’s decision to retire from board service.

The election, to be conducted entirely by mail, is scheduled for September 30th, although no election will be held if only one candidate files nomination papers (deadline 8/15). For details and updates, visit our website. For nomination papers, please contact the office.

The Northampton Retirement Board

The Northampton Retirement Board became operative on July 1, 1937 and is one of 104 retirement systems operating independently to provide defined pension benefits for public employees under M.G.L. c.32.

- **Joyce Karpinski** (Chairperson), Ex-Officio Member, City Auditor
- **Michael Lyons**, Elected Member, Retired City Auditor
- **Thomas Sullivan**, Appointed “5th” Member, Financial Advisor
- **Susan Wright**, Appointed Member, City Finance Director
- *Vacant (Elected Position)*

Staff Members

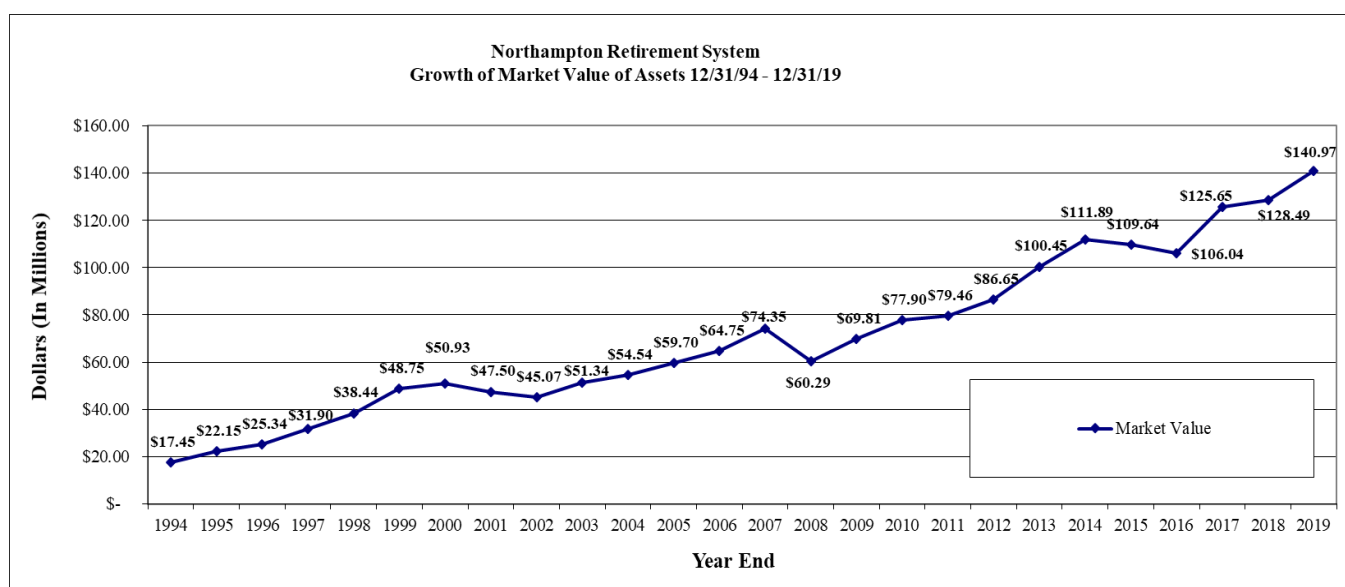
- **David Shipka** – Administrator
- **Elsie Vazquez** – Member Services Assistant

INVESTMENT REPORT

Prepared by our investment advisor, 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, 2019, the portfolio appreciated in value by a grand total of nearly 167% 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 \$19.86 million was disbursed from the portfolio over the past 11 years. Consequently, over the 11-year period, investment returns have added \$100.54 million to the portfolio despite the market collapse associated with the financial market crisis of 2008 and early 2009.

As the graph below shows, the System’s assets reached a new peak of \$140.97 million at the end of December 2019, an increase of \$12.48 million from the prior year end. Please keep in mind that there were also net distributions of \$2.00 million during 2019. Therefore, the portfolio appreciated by a combined total of \$14.48 million during 2019.



Performance for Northampton’s Retirement System during the first quarter of 2020 was good in relative terms. Through the end of March, Northampton’s portfolio was down approximately 5.5%, compared to the performance for the Pension Reserves Investment Trust (PRIT), the state’s pension fund, which was down approximately 9.9%.

For the calendar year 2019, the Northampton System performance had positive returns, up 11.3%. In comparison, the Public Retirement Investment Trust (PRIT) appreciated by 16.6% during the past 12 months. Over the past three years (ending on December 31, 2019), Northampton’s portfolio appreciated at an annual rate of 12.0% per year, compared to PRIT’s 10.4% annual rate of return. Over the past ten years (ending on December 31, 2019), Northampton’s portfolio appreciated in value by approximately 9.1% per year, which was above PRIT’s 9.0% return over the same time period.

Northampton’s good results over the long term demonstrate the System’s sustainability. During the 35 years that PERAC has been tracking performance of Massachusetts municipal pension funds, Northampton’s portfolio appreciated by an annual rate of 9.3%. Northampton’s annual appropriation and its projected funding schedule are based upon an assumed rate of return of 7.375%. Northampton’s actual, annualized rate of return of 9.3% over the past 35 years is well in excess of this assumed rate of 7.375%.

The Northampton Retirement System Portfolio

The assets of the Northampton System remain well diversified as the table below shows. During the year our investment advisor increased the stock allocation significantly from 43.9% of the total portfolio to 59.6%, with an emphasis on domestic stocks. Our investment advisor decreased the combined weighting of bonds and cash from 55.6% to 40.1% during the year.

	Allocation at 12/31/19	\$ Millions	% of Total
Cash	Cash	1.0	0.7
	Domestic Stock	67.4	47.8
	International Stock	16.6	11.8
	Real Estate	0.0	0.0
Equity	Total Equity	84.0	59.6
	Domestic Bonds	55.5	39.4
	International Bonds	0.0	0.0
	Below Invest. Grade	0.0	0.0
Fixed Income	Total Fixed	55.5	39.4
	Private Equity & Venture Capital	0.4	0.3
PRIT Investments	Total PRIT Investments	0.4	0.3
Total		140.9	100.0

The Financial Markets and the Economy in 2019

By all measures, 2019 proved to be a good year for investors. Indexes for large-cap domestic stocks, such as the S&P 500 and Dow Industrials, returned over 20%. Small-cap stocks and technology stocks also turned in good results. Indexes for international stocks, such as the MSCI Emerging Markets Index and the MSCI EAFE Index, were up 15% and 18%, respectively. Please refer to the table below for further details.

Benchmarks*	Three Months Ended 12/31/19	Calendar Year Ended 12/31/19
Dow Industrials	6.02%	22.34%
S&P 500	8.53%	28.88%
Russell 2000	9.52%	23.72%
NASDAQ Composite	12.17%	35.23%
MSCI Emerging Markets	11.35%	15.42%
MSCI EAFE Index	7.81%	18.44%
Crude Oil	12.93%	34.46%
Trade-weighted Dollar	-2.79%	-0.93%
Gold	3.55%	18.82%
2 Year Treasury	-13 basis points	-87 basis points
10 Year Treasury	-34 basis points	-102 basis points
Target Fed Funds Rate	-25 basis points	-75 basis points

Please note the returns listed above refer to price changes only.