



# The Northampton Retirement Board

## NEWSLETTER

July 2015

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

### Strong Returns for Northampton's Retirement Fund

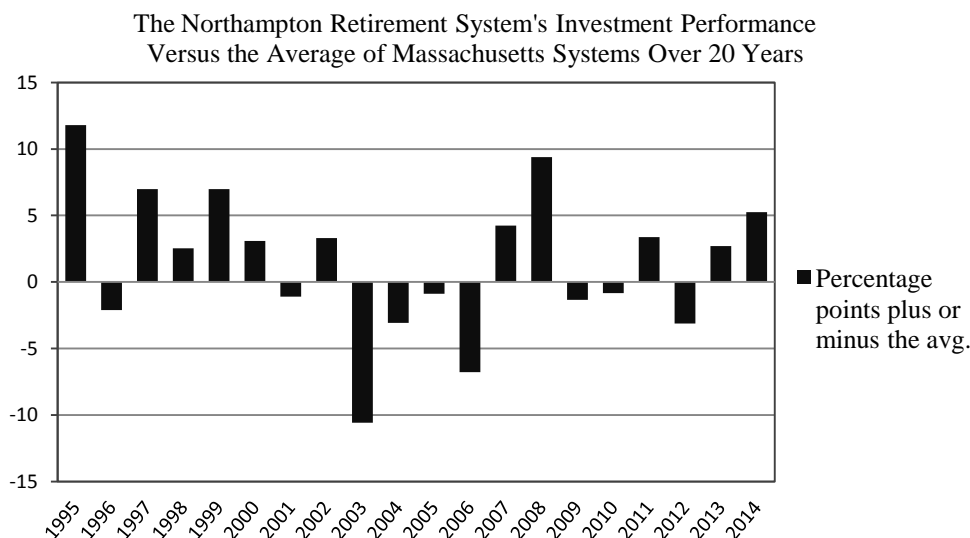
The Northampton Retirement System has the tenth highest annual rate of investment return among the 103 municipal, county and state retirement systems since 1985. Over those three decades the assets of the System have increased at a rate of 9.77% per year. Statewide over this period, 97 retirement systems have achieved at least an 8% annual rate of return. In terms of funding, this is an indicator of the Massachusetts plan's long term sustainability, since most systems are operating with an assumed return rate of 7.5-8% per year. It is noteworthy that despite the 2008 market crash, Northampton is among just four systems that have also managed to meet their annualized target over the last 10 years.

Below is a comparison of Northampton to the Massachusetts Public Retirement Investment Trust (PRIT) fund. Shown here are the 5, 10 and 20 year compound annual growth rates, as well as rankings among the 103 Mass. retirement systems.

	<u>2014</u>	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>
Northampton	12.91% (1)	11.57% (4)	8.58% (2)	10.02% (4)
State PRIT Fund	8.16% (54)	10.05% (57)	7.01% (33)	9.28% (20)

Northampton's assumed rate of return has been set at 7.75% since 2003. Meeting that target over the long haul is essential to ensuring that the System will become fully funded no later than planned. The schedule for paying down unfunded liability is adjusted every two years and currently extends to 2036.

This chart illustrates the System's investment performance since 1995 compared to the average return of the other 102 retirement systems in Massachusetts.



### 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 Irizarry**  
Administrative Assistant

#### CONTACTING THE OFFICE

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413-587-1211

**Fax**  
413-587-1278

**Online**  
[www.northamptonma.gov](http://www.northamptonma.gov)

***If you need to...***

- ✓ Change your designated beneficiary,
- ✓ Update your address or telephone number,
- ✓ Purchase creditable service for prior part-time employment or refunded membership,
- ✓ Request information on your future benefits,
- ✓ Plan a retirement date and file your application,

**... 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 2014 1099-R tax form to arrive by January 31, 2016.
- ✓ 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.

**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.

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 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. For many retirees, public earnings and hours worked after retirement are clearly low enough that close tracking is unnecessary. If you need assistance, contact us to find out how much you are permitted to earn.

**Retiree cost-of-living adjustment for FY 2015**

The Northampton Retirement Board again voted unanimously this year to grant the maximum allowable cost-of-living adjustment to retirees, which is 3%. It is important to note that under state law, the increase is limited to the first \$13,000 of your 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, 2014.

**Tom Sullivan reappointed to a third term**

Tom Sullivan was reappointed to the Retirement Board for a 3rd three-year term earlier this year. As the designated "5th" member he is independent of the Retirement System and his appointment is decided by the other four members. Outside of the NRB he works for FEMA as an Emergency Management Specialist. We congratulate him on his reappointment and are pleased to continue benefiting from the broad financial experience he brings to the Board.

*Please feel free to contact me if you have any questions or comments regarding this newsletter. David Shipka, Administrator*

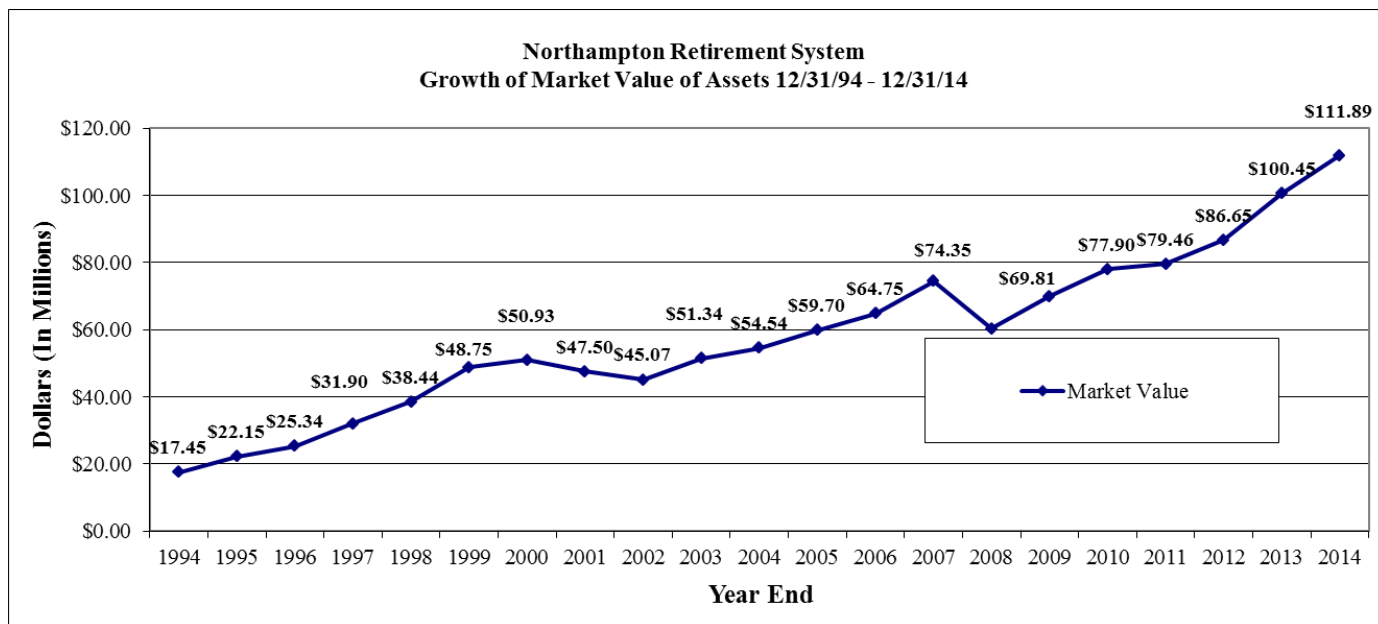
## Investment Report for 2014

Prepared for our members by our investment advisor, the de Burlo Group, Inc.

### The Northampton Retirement System's Performance

The stock market was strong again this year, with the Standard & Poor's 500 Stock Index returning approximately 13.7%. By comparison, the stocks in the Northampton Retirement System performed better, up approximately 15.6%. The entire portfolio (including stocks and bonds) of the Northampton Retirement System also had good results, returning nearly 13% for the year.

As the graph below shows, the System's assets reached a new peak of \$111.89 million at the end of December, 2014, an increase of \$11.44 million over the year earlier level. Growth in value over the last three years has come from investment returns rather than net appropriations.



For 2014, the Northampton System performance was excellent, up 12.9%. Such performance for Northampton compares favorably to the 8.2% return of the Public Retirement Investment Trust (PRIT), the State's pension fund. For the past five years Northampton's assets compounded at an average rate of approximately 11.6% per year, better than the 10.0% annual return earned by PRIT. For the past 10 years, Northampton has earned approximately 8.6% per year, well above PRIT's 7.0% return.

Although the full 2014 Annual Report has not yet been published, Public Employee Retirement Administration Commission (PERAC) has published its 2014 Investment Report which contains Northampton's performance along with comparative performance for other public employee retirement systems in the state. We are pleased to report to our members that for 2014 Northampton had the best investment results compared to all of the other public employee retirement systems in the state. In addition, Northampton ranked number 4 in the entire state over the past 5 years. Over the past 10 year time period, Northampton ranked number 2 in Massachusetts.

### The Northampton Retirement System Portfolio

The assets of the Northampton System remain well diversified as the table on the next page shows. During the year our investment adviser increased stocks from 67% of the total portfolio to 69% with an emphasis on increasing domestic stocks. Conversely, they lowered the commitment to bonds from about 30% of the portfolio to 26%, locking in gains from rising bond prices, helped by Federal Reserve policy.

	Allocation at 12/31/14	\$ Millions	% of Total
<b>Cash</b>	<b>Cash</b>	<b>4.0</b>	<b>3.6</b>
	Domestic Stock	66.5	59.5
	International Stock	10.8	9.6
	Real Estate	-	-
<b>Equity</b>	<b>Total Equity</b>	<b>77.3</b>	<b>69.1</b>
	Domestic Bonds	26.4	23.6
	International Bonds	1.9	1.7
	Below Invest. Grade	0.5	0.4
<b>Fixed Income</b>	<b>Total Fixed</b>	<b>28.8</b>	<b>25.7</b>
	Hedge Funds	0.9	0.8
	Private Equity & Venture Capital	0.8	0.7
<b>PRIT Investments</b>	<b>Total PRIT Investments</b>	<b>1.7</b>	<b>1.5</b>
<b>Total</b>		<b>111.9</b>	<b>100.0</b>

Totals may not add due to rounding.

### The Financial Markets in 2014

In 2014, the US stock market continued its upward trend set during the past several years. The results were quite good through mid-September, followed by a dip extending into October. The market then rallied extensively from its October lows until the end of the year. On average, the market returns were positive during each quarter of 2014, with the second and last quarters of 2014 exhibiting the most strength.

US stock markets continued to outperform foreign markets over the past year. More specifically, various US large cap indexes were up approximately 13% to 14% in 2014. Superior performance comes as no surprise given that the US economy has been resilient and US companies have logged in better revenue and earnings growth and have maintained stronger balance sheets compared to similar companies in other countries. It has also helped that various central banks have pumped large quantities of cash into the financial markets. Furthermore, slowing economies in the Eurozone and in countries such as China, Brazil, and Japan have put pressure on international equity markets around the globe.

The US stock markets continued to rally again this past year, aided by low interest rates. Additionally, a firming US economy and good corporate earnings propelled stocks higher. Oil was a significant underperformer, down nearly 46% over 2014. The surge in oil and gas production in the United States has resulted in oversupply in many world markets. Coupled with that, OPEC did not cut back production. In addition, slowing economies in European countries and China have lowered the overall demand for oil.

### The Economy and Outlook for 2015

Recently released economic data signal that second quarter growth in the Gross Domestic Product (GDP) is running at an annual rate of 2% to 3%, which is better than the flat performance of the first quarter. Although the economy has picked up, it is growing only moderately. Expectations are that economic growth for 2015 should be higher than 2014, but only by a small margin. GDP for 2014 was 2.4%, or in line with the average for the current cycle. By September of this year, the economy may be on a growth trajectory of 3.5% since certain conditions bode well for a pick up. Employment is up, wages are higher, mortgage rates are low, housing demand is high, and energy prices are low.

*Visit our website to read more about the economic outlook for 2015 from our investment manager, the de Burlo Group, Inc.*