The Northampton Retirement Board

N E W S L E T T E R

July 2017

News for our retirees and members-in-service

Retiree cost-of-living adjustment for FY18

The Northampton Retirement Board unanimously voted to grant a 3% cost-of-living adjustment to retirees, to a maximum of $390 per year. The effective date of the increase is July 1, 2017, and is payable beginning July 31st. To be eligible for the increase, state law stipulates that you must have been receiving a retirement allowance on or before June 30, 2016.

Active members who are nearing retirement next year, especially those who may be looking to retire at the end of the school year, may wish to keep this fact in mind when planning their retirement date. If your last day worked before retirement is not the 29th of June or earlier, you will have to wait up to nearly two years before you will be eligible to receive a cost-of-living adjustment.

Michael Lyons begins fifth elected term

Michael Lyons ran unopposed for re-election to the Retirement Board and began his fifth term on July 1, 2017. Prior to retiring in 2002 he served for 19 years as City Auditor, a position under which he also served as the ex-officio member of the Board.

Employees, is your retirement beneficiary information up to date?

As an active employed member of the Retirement System you are encouraged to revisit your beneficiary designation if you have experienced a major life event which would necessitate a change to your selection such as divorce, or the death of an individual who is listed on your beneficiary form. It is important to be aware that the beneficiary designations on any life insurance policy you may have do not carry over to your retirement membership. Such changes can only occur by filing a new beneficiary selection form with the Retirement Office. As a side note, bear in mind that this form only controls what happens to your retirement funds if you die prior to retirement. When you are ready to retire this form will be supplanted with the filing of your retirement papers.

When filling out a new beneficiary form you will notice that there are two sections to consider. In the first section you will list the individual or individuals

The Northampton Retirement Board

CONTACTING THE OFFICE

Address
240 Main Street, Room 5
Northampton, MA
01060-3110

Office Hours
8:30 - 4:30, Mon-Fri

Phone
413-587-1211

Fax
413-587-1278

Online
www.northamptonma.gov

If you need to...

- ✓ Change your designated beneficiary or update your marital status
- ✓ Update your contact info
- ✓ Purchase military service credit (maximum of four years of active service) or other qualifying prior service
- ✓ Request information on your future benefits or file for retirement

...or have questions then ***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 2017 1099-R tax form to arrive by January 31, 2018.
- ✓ 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.

Beneficiaries **(continued from page one)**

that will receive a one-time lump sum distribution of your retirement contributions if you die before retirement. Note that the person or persons you designate in this section may be anybody of your choosing and need not be related to you.

In the second section you may designate one individual, commonly referred to as the "Option D beneficiary", who will receive a monthly lifetime retirement allowance should you die before retirement. This selection is limited to a spouse, former spouse, parent or sibling. You are not required to fill out this section, however, if you do it is important to realize that it will supersede the first section of the beneficiary selection form that named who could receive a lump sum distribution upon your death. In other words, if an eligible person is named as the Option D beneficiary, they are required to take the monthly allowance instead of a lump sum distribution.

The amount of the monthly allowance under Option D is dependent upon the age and service of the member at the time of their death, as well as their marital status. Generally speaking, it is equal to an Option C retirement allowance which would be based on the member's years of service at the time of their death and either the minimum retirement age or the member's actual age, whichever is greater. There are special rules for spouses in place that under certain circumstances, which are discussed below, qualify them to receive a minimum monthly allowance under Option D.

It is often the case that an employee marries many years after being hired and for whatever reason does not think to file a new beneficiary form. Special rules help protect benefits for spouses of deceased members that perhaps never got around to changing their beneficiary. If a member dies before retirement their spouse may elect to receive Option D benefits, even if not named, if the following conditions are met: the deceased member was a member-in-service at the time of death, had been married for at least one year, had at least two years of creditable service, and member and spouse were living together at the time of death, or, if living apart, for a justifiable cause other than "desertion or moral turpitude." Under these circumstances the surviving spouse would also qualify for a minimum monthly retirement allowance of no less than $250.00, which generally may be beneficial to members who die with less than five or six years of service.

To change your beneficiary, stop by our office or give us a call at 587-1211

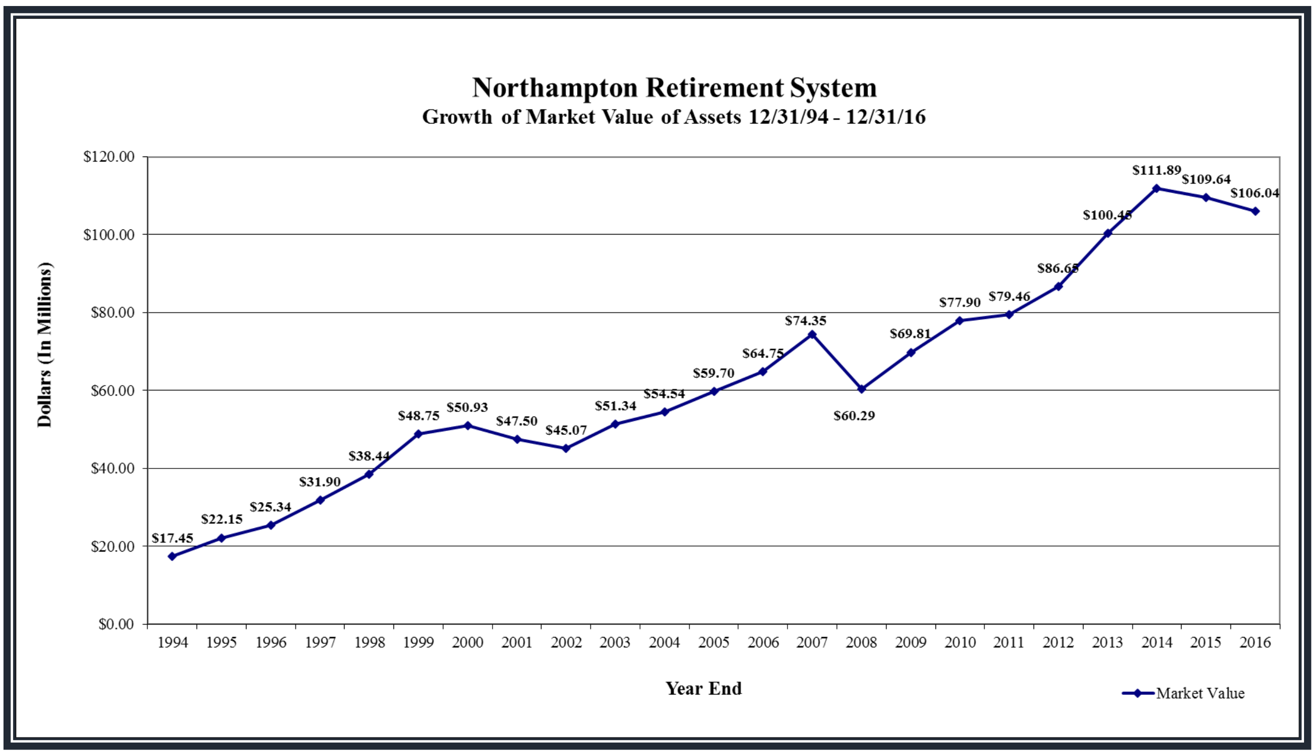
Investment Report for 2016

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

The Northampton Retirement System's Performance

From a long-term perspective the Northampton Retirement System's portfolio has seen impressive growth (please see the graph below). As of December 31, 2016, the portfolio has appreciated in value by a grand total of nearly 97% 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 $12.43 million has been disbursed from the portfolio over the past eight years. Consequently, over the eight-year period, investment returns have added $58.18 million to the portfolio despite the market collapse associated with the financial market crisis of 2008 and early 2009.

The System's assets were valued at $106.04 million at the end of December, 2016, a decrease of $3.06 million over the year earlier level. Most of this decrease was due to the fact that nearly $2.74 million in net appropriations were distributed from the portfolio. The balance is a result of flat to slightly negative returns during 2016.



For the calendar year 2016, the Northampton System performance was essentially flat, down by 0.5%. Performance for Public Retirement Investment Trust (PRIT), the State's pension fund, was higher, up 8.0%. For the past five years (ending on December 31, 2016), Northampton's assets compounded at an average rate of approximately 8.0% per year, compared to the 9.2% annual return earned by PRIT. For the past 10 years (ending on December 31, 2016), Northampton has earned approximately 6.5% per year, which was above PRIT's 5.0% return over the same time period.

The Northampton Retirement System performance during the latest reporting period as of this writing has been strong. Through the end of May, Northampton's portfolio was up approximately 11.6%, compared to the performance for Public Retirement Investment Trust (PRIT), the State's pension fund, which was up approximately 7.6%.

Northampton's results over the long term demonstrate the System's sustainability. During the 32 years that PERAC has been tracking performance of Massachusetts municipal pension funds, the Northampton Retirement System has earned an annualized return of approximately 9.1%.

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 9.1% annualized return the System has earned over the 32 years is well in excess of that. Furthermore, Northampton's return is on par with PRIT's 9.4% per year over the past 32 years.

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 stocks from 60% of the total portfolio to approximately 63% with an emphasis on adding domestic stocks. Conversely, they decreased the commitment to bonds from approximately 39% of the portfolio to 36%.

	Allocation at 12/31/16	$ Millions	% of Total
Cash	**Cash**	**0.7**	**0.7**
	Domestic Stock	64.2	60.5
	International Stock	2.1	2.0
	Real Estate	0.1	0.1
Equity	**Total Equity**	**66.4**	**62.6**
	Domestic Bonds	34.5	32.5
	International Bonds	2.9	2.8
	Below Invest. Grade	0.8	0.7
Fixed Income	**Total Fixed**	**38.2**	**36.0**
	Private Equity & Venture Capital	0.7	0.7
PRIT Investments	**Total PRIT Investments**	**0.7**	**0.7**
Total		**106.0**	**100.0**
Totals may not add correctly due to rounding			

The Financial markets in 2016

Gomer Pyle, played by Jim Nabors, on the TV show Gomer Pyle, USMC was often awestruck and responded with the following words: "Surprise…Surprise…Surprise". This past year proved to be topsy-turvy for financial markets—through February 11, the stock market had fallen 11%, and yet it ended the year up approximately 10%. Such surprises would likely have caused Gomer Pyle to recite his famous line often during 2016.

Early in 2016 global markets cratered on fears associated with further weakening in the Chinese economy and its currency. Additionally, forecasts called for recession in the U.S., credit markets were weak, and oil prices plunged to $26 a barrel as investors expected mass corporate bankruptcies in the energy sector. Then, the Federal Reserve downgraded its call for four rate hikes in 2016 and the market soared nearly 15% off of its February lows.

Brexit was the next major surprise. On June 24, British voters shocked the world by voting to sever ties with the European Union. This event threw Great Britain, Europe, and much of the world into disarray. Global markets gyrated wildly and more volatile investments such as equities plunged. Within two days, European stocks and U.S. stocks were down nearly 10% and 5%, respectively. Yet, U.S. stocks immediately bounced back and regained those losses.

The fourth quarter market results were driven in large part by the surprise outcome of the U.S. presidential election. Most observers predicted that Hillary Clinton would become the next president and investors expected an immediate bear market should Donald Trump win the White House. Both events failed to materialize since the market surged over 4.5% from the point of Trump's surprise victory on November 8 through the end of the year.

The major stock indexes have continued to hit fresh record highs based on investors' expectations of tax cuts from the incoming administration. These potential tax cuts could stimulate spending and repatriate cash from companies with operations overseas. Second, many investors have concluded that regulatory rollbacks could boost certain stocks in the financials and energy sectors. Last, the potential for spending on infrastructure projects could provide the fiscal stimulus that may spur economic activity and allow the Federal Reserve to normalize interest rates.

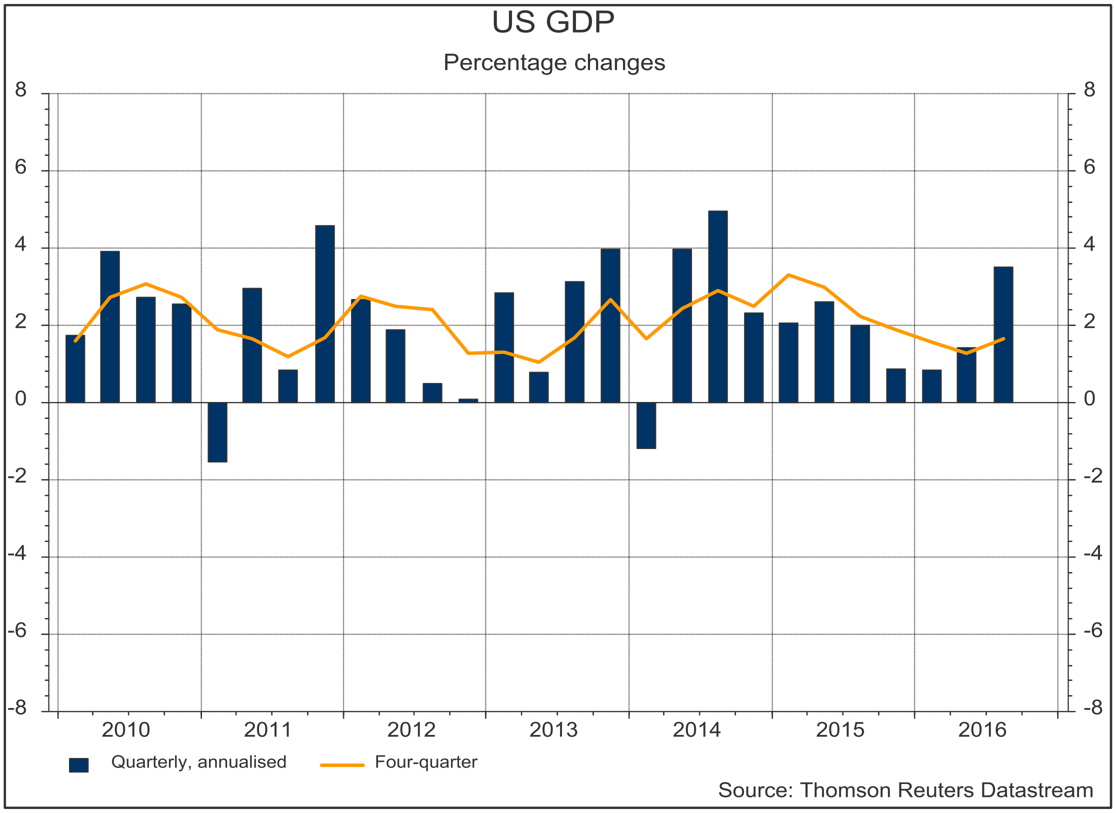
The Economy and Outlook for 2017

Indeed, economic conditions were already improving before the presidential election. Markets rallied and many investors expect certain proposed plans to boost growth further in 2017. The important question is whether Trump's pro-growth economic policies will be implemented in a timely manner since stock markets have rallied based on expectations of these policies coming to fruition. Moving policies through Congress could be challenging for the new administration, and if not done properly, then stock markets could react negatively. In short, there needs to be follow through with Trump's pro-growth agenda in order to keep stocks moving higher.

There are a number of positive factors that may help to propel the current bull market in stocks, which as it turns out, is the second longest in history. First, corporate earnings are on the mend. Fourth quarter results could show better growth for the first time in the past year and a half. Energy companies are in better financial shape and should grow with higher oil prices. Other companies could see revenue growth and post better profits, given the substantial cost-cutting efforts of recent years. Second, the economy is sturdier and has picked up in the fourth quarter. The rate of economic growth has accelerated and labor markets have continued to strengthen. Employment data such as payroll growth and jobless claims have been good in past quarters.

The U.S. economy has recently gained momentum when compared to the anemic second quarter Gross Domestic Product (GDP) growth of 1.4%. The third quarter GDP was revised higher to 3.2%, notching its best performance in 2 years—please see the chart on the next page for details. The good results for the third quarter were based mostly on solid consumer spending, which increased at a rate of 2.8%. Other factors which accounted for the positive third quarter growth were a surge in agricultural exports, home building, and business investment in structures such as oil and gas wells.

The fourth quarter GDP results were good. Due to lower business inventories in the third quarter, companies will likely place new orders which will help economic growth in future quarters as well.



Economic data such as retail sales, manufacturing, and housing suggest that the economy will retain its current momentum. Housing is solid, with construction spending at 10-year highs, permits rising to 9-year highs, and homebuilder confidence surging in November. The manufacturing sector is expanding, as evidenced by the December Manufacturing ISM reading having risen to the highest level since 2014 due to a surge in orders.

The labor market is in good shape and could be near what is considered to be full employment. The number of unemployment claims fell to a 43-year low in the last week of December and the jobless rate is at a nine-year low of 4.6%. Inflation is firming to what are near-healthy levels and consumer sentiment jumped up to a reading of 94 at the end of 2016. Lastly, household incomes, which are essential to GDP growth in coming quarters, rose at the fastest pace since 2014. More segments of the population, not just the wealthy, have experienced such rising household incomes.

The U.S. economy could experience GDP growth of nearly 3% in 2017. Despite its longevity, the recovery appears to be broader and healthy, devoid of excesses in lending, housing, or capital spending. Corporate profits are growing again, commodity prices are firming, and other economies from around the globe appear to be in better shape. Leading economic indicators are positive and suggest that recession is unlikely in the immediate term.