Brockton

Retirement System
Audit Report
January 1, 2015 - December 31, 2018

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

March 3, 2022

The Public Employee Retirement Administration Commission has completed an examination of the Brockton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2015 to December 31, 2018. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of the auditors who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons, Esq.
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliations:

The Brockton Retirement Board has two Bank of America accounts for operations: an Expense Account and a Payroll Account. The Treasurer's office prepares monthly cash reconciliations that are reconciled to a "check book" balance and not the General Ledger (GL) balance. We found differences between the check book balance and the GL balance in some of the cash reconciliations tested. We noted that the current Administrator prepared a handwritten cash reconciliation on bank statements that matched the GL balance after adjustment for outstanding checks.

There were checks that had been outstanding for more than 6 months on all four reconciliations reviewed. As of the end of the audit period (December 2018) there was a combined total of 47 stale checks for both accounts. By November 2020 the Payroll account was down to 3 stale checks, but the Expense account had the same 16 as the reconciliation from almost two years earlier.

There were no signatures of the individual that prepared the reconciliation nor of the reviewer.

Recommendation: The Board needs to monitor the status of cash reconciliations completed by the Treasurer's office and ensure they are reconciled to the GL. The Administrator and the Treasurer should discuss the differences between the "check book balance" and the GL balance for each reconciliation. The Board must review outstanding checks over six months old and resolve any issues on a timely basis. Both the preparer and reviewer should sign and date the reconciliations.

Board Response:

The Brockton Retirement Board is actively working with a new bank and soon will be setting up new accounts. Going forward these accounts will be reconciled monthly to the bank statement and the General Ledger, then confirmed with the Treasurer's office. Recent outstanding checks are currently being researched.

The old outstanding checks mentioned are being researched. The intent is to employ new ACH capabilities; the old checks are expected to be cancelled and distributed through the ACH process.

2. Expense Documentation:

We found 7 out of 21 (33%) travel expense reimbursements were paid to Board members and Retirement Board staff without sufficient back-up documentation such as receipts for meals, airport parking, conference brochures, travel logs, and hotel invoices or guest folios.

The Board had a credit card for a period of time starting prior to our audit period and ending partway through 2016. There are several issues related to this card.

- Boards are allowed to have credit cards but they must adopt a regulation covering their use pursuant to 840 CMR 2.11. The Brockton Retirement Board did not have this regulation.
- All charges made to the card must have receipts. There was no support for some of the charges selected for testing.

- We found that the Board paid fees of $20 each month for the use of the card and paid late fees of $75 twice during this time period.
- In our review of Board meeting minutes, we noted that Board members were made aware of the credit card in early 2016. Moreover, credit card bills had been on warrants from 2015 through March 2016 and the Board approved all payments.
- The July 27, 2016 meeting minutes stated the Board had previously told the director at the time that it was not desirable to have a Board credit card. The director had terminated the card after the Board's discovery.

Recommendation: The Board needs to ensure that reimbursements for all expenses are supported by receipts and other appropriate documentation. The Board members must review expense warrants in detail to ensure there are no payments to unauthorized vendors.

Board Response:
As PERAC states, the Board closed this credit card over five years ago, therefore, this matter is resolved. Since 2017 all invoiced reimbursements have supporting documentation. At each Board meeting the expense warrant and invoices are present for review. The Chair, and other Board members typically arrive early for meetings to review physical documentation before each meeting.

3. Military Service Fund:
Pursuant to G.L. c. 32, §§ 22(4)(a) and (c), we found that the City of Brockton has not been appropriating funds for members called to active duty to the Military Service Fund.

The ending balances on the Military Credit worksheets provided by the Retirement Board for our test work did not tie to the Military Service Fund in the GL for the audit years 2015-2018. We noted a transfer from Pension Reserve Fund to the Military Service Fund in 2015 for deductions added. However, the 2016, 2017, and 2018 deductions shown on the Military Credit worksheets were not recorded to the GL.

Recommendation: The Retirement Board should follow up on their resolution to send the calculated amounts of Military Service Funds owed by the various employing units of the City to PERAC's Actuarial Unit for the appropriation letter to be used for billing the units. The Board should not move money out of the Pension Reserve Fund to the Military Service Fund.

Board Response:
The Board is engaging in a mail campaign to assist the System in identifying all deployed military members. When proper identification is made and those members retire the System will seek reimbursement from the employing units.

PERAC Response:
We commend the Board for their efforts in identifying all deployed military members. However, when identification is made the Board should seek reimbursement from the employing units when the member returns to service, not when the member retires.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

4. Retirement Allowance Calculations:
We tested 23 new retirements during 2015-2018 and found the following errors in the retirement allowance calculations.

- One retiree's allowance was calculated counting a $1,350 longevity payment as deductions by mistake. The Board then used the inflated deductions to back in to regular compensation. The retiree has been overpaid by approximately $10,500 per year since June 2018.
- One retiree had two weeks of earnings missing from the three highest years total. It appears that the Board counted two checks containing only pay from retroactive contract settlements as two weeks of regular earnings. The retiree has been underpaid by about $1,700 per year since July 2018.
- We noted that buybacks of laid off time for police and firefighters were not calculated correctly because interest was charged past the reinstatement date.

Recommendation: The Retirement Board must review the above noted retirement allowance calculations and make all corrections necessary. The Board should use payroll reports to determine the three highest years of regular compensation and not use deductions. The Board should review active members of the police and fire departments with purchases of laid off time and make any necessary corrections. There should not be any interest charged after the reinstatement date pursuant to PERAC Memo #16 from 2007.

Board Response:
The Board concurs.

5. Investments:
During the audit period Boston Capital Venture III (GL 1193) did not have any activity except for an unrealized loss in 2016. The Board does not have any investment manager statements after 2015 and has had no communication from the manager. This investment had a balance on the GL of about $21,000 at December 31, 2018.

Recommendation: The Retirement Board should write down the Boston Capital Venture III investment to $0.

Board Response:
Boston Capital Venture was written down.

FINAL DETERMINATION:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2018	2017	2016	2015
Net Assets Available For Benefits:				
Cash	$13,066,487	$12,159,012	$10,163,757	$13,562,150
Equities	10,356	10,464	7,718	7,589
Pooled Domestic Equity Funds	72,598,728	104,970,157	133,828,371	121,025,943
Pooled International Equity Funds	134,324,472	136,367,575	78,705,562	75,102,918
Pooled Domestic Fixed Income Funds	59,696,959	57,864,857	56,057,735	52,863,806
Pooled International Fixed Income Funds	20,987,029	21,962,731	19,390,196	17,938,779
Pooled Alternative Investment Funds	47,980,392	43,784,284	31,014,953	30,960,935
Pooled Real Estate Funds	21,896,245	25,823,832	27,719,245	30,129,874
Pooled Domestic Balanced Funds	14,747,654	14,958,270	12,077,483	11,904,367
Interest Due and Accrued	134,189	160,568	160,568	148,843
Prepaid Expenses	0	916	916	893
Accounts Receivable	169,320	169,502	208,253	21,717
Accounts Payable	(21,222)	(153,526)	(414,138)	(375,453)
Total	$385,590,609	$418,078,642	$368,920,617	$353,292,360
Fund Balances:				
Annuity Savings Fund	$100,431,547	$96,020,986	$94,177,922	$90,125,409
Annuity Reserve Fund	25,946,858	26,915,744	25,196,028	25,928,031
Pension Fund	28,645,537	25,990,340	8,622,879	0
Military Service Fund	100,043	102,108	107,734	102,484
Expense Fund	0	0	0	0
Pension Reserve Fund	230,466,623	269,049,465	240,816,055	237,136,436
Total	$385,590,609	$418,078,642	$368,920,617	$353,292,360

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2015	$86,238,886	$26,487,330	($29,996,576)	$101,760	$0	$289,119,143	$371,950,543
Receipts	8,629,837	756,016	19,794,747	110	3,020,202	(8,264,608)	23,936,303
Interfund Transfers	(4,106,845)	4,107,194	43,717,136	614	0	(43,718,098)	0
Disbursements	(636,469)	(5,422,508)	(33,515,307)	0	(3,020,202)	0	(42,594,486)
Ending Balance 2015	90,125,409	25,928,031	0	102,484	0	237,136,436	353,292,360
Receipts	8,995,741	749,818	20,762,717	108	3,205,538	25,568,282	59,282,205
Interfund Transfers	(4,152,963)	4,151,192	21,885,292	5,142	0	(21,888,664)	0
Disbursements	(790,265)	(5,633,013)	(34,025,130)	0	(3,205,538)	0	(43,653,948)
Ending Balance 2016	94,177,922	25,196,028	8,622,879	107,734	0	240,816,055	368,920,617
Receipts	9,664,401	772,153	25,565,682	111	3,026,827	55,913,667	94,942,841
Interfund Transfers	(6,952,941)	6,958,678	27,680,256	(5,737)	0	(27,680,256)	0
Disbursements	(868,396)	(6,011,115)	(35,878,477)	0	(3,026,827)	0	(45,784,816)
Ending Balance 2017	96,020,986	26,915,744	25,990,340	102,108	0	269,049,465	418,078,642
Receipts	9,965,237	778,772	26,773,028	102	3,447,421	(25,191,627)	15,772,934
Interfund Transfers	(4,589,137)	4,591,194	13,391,325	(2,167)	0	(13,391,215)	0
Disbursements	(965,539)	(6,338,852)	(37,509,155)	0	(3,447,421)	0	(48,260,967)
Ending Balance 2018	$100,431,547	$25,946,858	$28,645,537	$100,043	$0	$230,466,623	$385,590,609

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Members Deductions	$9,564,108	$9,137,704	$8,707,878	$8,155,429
Transfers from Other Systems	125,355	228,726	68,133	236,524
Member Make Up Payments and Re-deposits	144,895	186,429	118,062	147,351
Member Payments from Rollovers	12,975	3,000	0	0
Investment Income Credited to Member Accounts	117,904	108,543	101,669	90,532
Sub Total	9,965,237	9,664,401	8,995,741	8,629,837
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	778,772	772,153	749,818	756,016
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	315,025	248,553	216,103	271,848
Received from Commonwealth for COLA and Survivor Benefits	388,851	286,204	452,651	209,932
Pension Fund Appropriation	26,029,652	25,014,425	20,072,463	19,289,967
Settlement of Workers' Compensation Claims	39,500	16,500	21,500	23,000
Recovery of 91A Overearnings	0	0	0	0
Sub Total	26,773,028	25,565,682	20,762,717	19,794,747
Military Service Fund:				
Investment Income Credited to the Military Service Fund	102	111	108	110
Expense Fund:				
Investment Income Credited to the Expense Fund	3,447,421	3,026,827	3,205,538	3,020,202
Pension Reserve Fund:				
Federal Grant Reimbursement	9,023	8,713	8,464	8,260
Interest Not Refunded	26,116	0	352	0
Miscellaneous Income	22,984	766	26,460	664,389
Excess Investment Income	(25,249,750)	55,904,187	25,533,006	(8,937,257)
Sub Total	(25,191,627)	55,913,667	25,568,282	(8,264,608)
Total Receipts, Net	$15,772,934	$94,942,841	$59,282,205	$23,936,303

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Refunds to Members	697,166	497,171	338,102	317,922
Transfers to Other Systems	268,372	371,225	452,163	318,547
Sub Total	965,539	868,396	790,265	636,469
Annuity Reserve Fund:				
Annuities Paid	6,329,724	5,913,524	5,535,083	5,259,248
Option B Refunds	9,128	97,592	97,930	163,260
Sub Total	6,338,852	6,011,115	5,633,013	5,422,508
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	24,214,476	23,076,206	22,324,424	21,656,975
Survivorship Payments	2,079,987	2,155,517	2,004,765	1,980,568
Ordinary Disability Payments	383,568	404,556	405,969	399,824
Accidental Disability Payments	7,562,878	7,248,529	6,970,066	6,734,496
Accidental Death Payments	1,603,043	1,316,145	1,364,233	1,271,955
Section 101 Benefits	308,548	253,215	247,644	240,410
3 (8) (c) Reimbursements to Other Systems	1,356,655	1,424,310	708,030	1,231,080
Sub Total	37,509,155	35,878,477	34,025,130	33,515,307
Expense Fund:				
Board Member Stipend	15,000	15,000	15,000	15,000
Salaries	366,036	415,343	458,119	369,174
Benefits	5,559	0	0	0
Legal Expenses	11,865	18,750	17,078	17,292
Travel Expenses	3,829	2,624	10,199	9,421
Administrative Expenses	73,422	142,479	66,495	83,165
Actuarial Services	17,400	0	23,686	28,437
Accounting Services	0	28,143	6,263	0
Education and Training	1,980	1,490	1,100	1,620
Furniture and Equipment	0	7,548	0	677
Management Fees	1,370,085	1,401,252	1,421,973	1,530,821
Custodial Fees	0	375	1,500	5,995
Consultant Fees	1,400,905	839,894	1,002,655	796,933
Rent Expenses	46,455	46,117	54,334	37,400
Service Contracts	67,918	42,804	62,229	59,360
Fiduciary Insurance	66,968	65,008	64,908	64,908
Sub Total	3,447,421	3,026,827	3,205,538	3,020,202
Total Disbursements	$48,260,967	$45,784,816	$43,653,948	$42,594,486

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Investment Income Received From:				
Cash	$735	$2,165	$270	($23,429)
Equities	0	35,654	28,387	743,747
Pooled or Mutual Funds	10,166,255	10,896,441	6,832,131	8,118,955
Total Investment Income	10,166,991	10,934,259	6,860,788	8,839,273
Plus:				
Realized Gains	17,565,534	18,633,732	3,547,856	6,267,473
Unrealized Gains	91,425,440	52,814,568	56,012,204	50,194,922
Interest Due and Accrued - Current Year	134,189	160,568	160,568	148,843
Sub Total	109,125,163	71,608,868	59,720,628	56,611,237
Less:				
Realized Loss	(1,986,374)	(1,639,669)	(6,692,394)	(11,283,101)
Unrealized Loss	(137,993,409)	(20,931,069)	(30,150,040)	(59,025,266)
Interest Due and Accrued - Prior Year	(160,568)	(160,568)	(148,843)	(212,540)
Carried Interest Expense	(57,353)	0	0	0
Sub Total	(140,197,704)	(22,731,306)	(36,991,277)	(70,520,907)
Net Investment Income	(20,905,550)	59,811,821	29,590,138	(5,070,397)
Income Required:				
Annuity Savings Fund	117,904	108,543	101,669	90,532
Annuity Reserve Fund	778,772	772,153	749,818	756,016
Military Service Fund	102	111	108	110
Expense Fund	3,447,421	3,026,827	3,205,538	3,020,202
Total Income Required	4,344,199	3,907,634	4,057,132	3,866,860
Net Investment Income	(20,905,550)	59,811,821	29,590,138	(5,070,397)
Less: Total Income Required	4,344,199	3,907,634	4,057,132	3,866,860
Excess Income (Loss) To The Pension Reserve Fund	($25,249,750)	$55,904,187	$25,533,006	($8,937,257)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2018	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$13,066,487	3.4%
Equities	10,356	0.0%
Pooled Domestic Equity Funds	72,598,728	18.8%
Pooled International Equity Funds	134,324,472	34.9%
Pooled Domestic Fixed Income Funds	59,696,959	15.5%
Pooled International Fixed Income Funds	20,987,029	5.4%
Pooled Alternative Investment Funds	47,980,392	12.5%
Pooled Real Estate Funds	21,896,245	5.7%
Pooled Domestic Balanced Funds	14,747,654	3.8%
Grand Total	$385,308,321	100.0%

For the year ending December 31, 2018, the rate of return for the investments of the Brockton Retirement System was -5.20%. For the five-year period ending December 31, 2018, the rate of return for the investments of the Brockton Retirement System averaged 4.59%. For the 34-year period ending December 31, 2018, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brockton Retirement System was 8.39%.

The composite rate of return for all retirement systems for the year ending December 31, 2018 was -2.25%. For the five-year period ending December 31, 2018, the composite rate of return for the investments of all retirement systems averaged 6.22%. For the 34-year period ending December 31, 2018, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.00%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brockton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 72.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $924.60 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $924.60 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $300,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE (OPTION D)

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	AnnMarie Raymond		
Appointed Member:	John A. Condon	Serves until a successor is appointed	
Elected Member:	Scott G. Albanese	Term Expires:	6/30/2024
Elected Member:	Archibald Gormley, Jr.	Term Expires:	6/30/2022
Appointed Member:	William R. Farmer, Chairman	Term Expires:	2/25/2025

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

BOARD REGULATIONS

The Brockton Retirement System has adopted Supplemental Regulations which are available on the PERAC website at https://www.mass.gov/Brockton-retirement-board-regulations.

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries, LLC as of January 1, 2020.

The actuarial liability for active members was	$295,330,841
The actuarial liability for inactive members was	4,426,676
The actuarial liability for retired members was	418,411,362
The total actuarial liability was	$718,168,879
System assets as of that date were (actuarial value)	435,232,670
The unfunded actuarial liability was	$282,936,209
The ratio of system's assets to total actuarial liability was	60.6%
As of that date the total covered employee payroll was	$105,044,030

The normal cost for employees on that date was	9.4% of payroll
The normal cost for the employer including administrative expenses was	5.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies based on group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2020

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2020	$435,232,670	$718,168,879	$282,936,209	60.6%	$105,044,030	269.4%
1/1/2018	$411,711,574	$659,285,373	$247,573,799	62.4%	$96,075,528	257.7%
1/1/2016	$380,329,008	$590,910,301	$210,581,293	64.4%	$89,738,426	234.7%
1/1/2014	$355,691,316	$529,526,217	$173,834,901	67.2%	$73,756,821	235.7%
1/1/2013	$332,880,082	$519,017,932	$186,137,850	64.1%	$76,378,221	243.7%

NOTE 5 - MEMBERSHIP EXHIBIT

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retirement in Past Years										
Superannuation	64	52	30	9	50	6	45	42	52	34
Ordinary Disability	0	2	0	0	0	0	0	0	0	0
Accidental Disability	0	6	6	1	0	2	6	4	13	4
Total Retirements	64	60	36	10	50	8	51	46	65	38
Total Retirees, Beneficiaries and Survivors	1,275	1,343	1,322	1,274	1,275	1,287	1,335	1,281	1,289	1,284
Total Active Members	1,718	1,679	1,699	1,717	1,821	1,827	1,891	1,908	1,815	1,880
Pension Payments										
Superannuation	$17,904,843	$18,751,235	$19,271,685	$19,444,430	$20,799,122	$21,545,432	$21,656,975	$22,324,424	$23,076,206	$24,214,476
Survivor/Beneficiary Payments	1,493,571	1,551,731	1,565,071	1,664,743	1,894,298	2,009,371	1,980,568	2,004,765	2,155,517	2,079,987
Ordinary Disability	347,833	349,393	404,861	384,805	415,429	391,229	399,824	405,969	404,556	383,568
Accidental Disability	6,797,918	7,038,658	6,936,606	6,767,853	6,887,940	6,889,991	6,734,496	6,970,066	7,248,529	7,562,878
Other	1,710,323	1,892,597	2,272,145	2,763,551	2,040,983	2,245,574	2,743,444	2,319,907	2,993,670	3,268,246
Total Payments for Year	$28,254,488	$29,583,614	$30,450,368	$31,025,382	$32,037,772	$33,081,597	$33,515,307	$34,025,130	$35,878,477	$37,509,155

NOTE 6 – LEASED PREMISES

The Brockton Retirement Board leases approximately 2,740 square feet of space for its offices located at 1322 Belmont Street, Ground level Units 1 & 2, Brockton, MA. They signed a 5-year lease which expired on January 1, 2021. The lease was extended 7 additional years on February 1, 2021. The landlord is C & C Realty Trust .

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2018:

For the year ending:	Annual Rent
2019	$46,751
2020	47,083
2021	52,374
2022	55,060
2023	57,571
2024	60,201
2025	62,955
2026	65,839
2027	68,859
2028 (through 2/1/2028)	5,759
Total future minimum lease payments required	$522,451

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone: 617-666-4446 | Fax: 617-628-4002
TTY: 617-591-8917 | Web: www.mass.gov/perac

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair* JOHN W. PARSONS, ESQ., *Executive Director*

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

February 28, 2023

William Farmer, Chairperson
Brockton Retirement Board
1322 Belmont St
Suite 101
Brockton, MA 02301

REFERENCE: Report of the Examination of the Brockton Retirement Board for the four-year period from January 1, 2015, through December 31, 2018.

Dear Chairperson Farmer:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Brockton Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

1. The Audit Report cited a finding that monthly cash reconciliations were reconciled to a "check book" balance and not to the general ledger (GL) balance. We found differences between the check book balance and the GL balance in some of the cash reconciliations tested.

Follow-up Result: We were not provided with cash reconciliations for our follow up testing. No changes have been made to the cash reconciliation procedures. This issue is not resolved.

2. The Audit Report cited a finding that travel expense reimbursements were paid to Board members and Retirement Board staff without sufficient back-up documentation.

Follow-up Result: Supporting documentation for 2022 travel expense reimbursements selected in follow up testing were provided. This issue is resolved.

3. The Audit Report cited a finding that the City of Brockton has not been appropriating funds to the Military Service Fund for members called to active duty.

Follow-up Result: No funds were appropriated to the Military Service Fund since the end of the prior audit period. This issue is not resolved.

4. The Audit Report cited a finding that retirement allowance calculations for two members and buybacks of laid off time for police and firefighters were calculated incorrectly.

Follow-up Result: Corrections were not provided. This issue is not resolved.

5. The Audit Report cited a finding that the Boston Capital Venture III investment did not have any activity during the audit period except for an unrealized loss in 2016. The Board did not have any manager statements after 2015 and had no communication from the manager.

Follow-up Result: The Boston Capital Venture III investment was written down to $0 in 2021. This issue is resolved.

The additional matters discussed have been reviewed and most have been resolved.

PERAC auditors will conduct further follow-up as warranted to ensure corrections have been made in those areas that have not been resolved at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director

JWP/tal
cc: Brockton Retirement Board Members