

CONCORD
CONTRIBUTORY RETIREMENT SYSTEM
AUDIT REPORT
JANUARY 1, 2016 - DECEMBER 31, 2019



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

JOHN W. PARSONS, ESQ., *Executive Director*

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

November 3, 2022

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Concord Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2016 to December 31, 2019. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash and investment balances are accurately stated, 3) that procurements of investment related contracts complied with the provisions of Section 23B of Chapter 32 and that management fees paid were in accordance with the executed contracts, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Concord Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash and investment balances, examined a sample of investment related procurements and recalculated management fees charged. We tested a sample of travel expenses for Board approval, supporting documentation, and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We reviewed a sample of member files for accuracy and completeness.

In our opinion, for those areas tested, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exceptions 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 and staff for their courtesy and cooperation.

Sincerely,



John W. Parsons, Esq.
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Regular Compensation:

A review of payroll registers revealed both pay types that were not regular compensation that had retirement contributions withheld and pay types that were regular compensation that did not have retirement contributions withheld. Examples of the former were additional hours beyond the normal schedule that were not pre-determined and an attendance bonus. Examples of the latter were pre-determined stipends for participating in a committee and teaching adult education.

A review of the retirement system's retirees revealed that the Highway and Grounds Division's pay for being on stand-by on Christmas and New Year's Day has retirement contributions withheld but it does not satisfy the definition of regular compensation. 840 CMR 15.03 3(b) requires that the payments be "non-discretionary"- since the employees voluntarily sign up to be on stand-by those two holidays, it is discretionary and therefore not regular compensation.

Recommendation: The staff of the retirement board should work with the various departments to correct the errors discovered during the audit. For the two retirees with stand-by pay (labelled "duty pay" on the payroll reports) their allowances should be re-calculated without that pay included in the three-year average salary.

Board Response:

Payroll codes are regularly reviewed in conjunction with PERAC's evolving advisories regarding regular compensation. The Board respectfully notes that while 840 CMR 15.03(2)(a) excludes from regular compensation "any amounts paid for hours worked beyond the member's normal work schedule," that exclusion applies to "any period of active service prior to July 1, 2009." No such specific prohibition is articulated in 840 CMR 15.03(f), which sets forth regular compensation exclusions for "any period of active service subsequent to July 1, 2009."

Nevertheless, retirement withholding errors for both active and retired members are being corrected, through refunds for active members and partial offset of excess benefits due after re-calculation of retirement allowances. Departments have been advised of the requirements for stand-by pay to be considered regular compensation.

PERAC Response:

Our finding in regard to the Highway and Grounds Division's pay for being on stand-by on Christmas and New Year's Day is based on the requirements of 840 CMR 15.03 3(b), which describes "wages" as "the base salary or other base compensation of an employee paid to that employee for employment by an employer including pre-determined, **non-discretionary**, guaranteed payments paid by the employer to similarly situated employees". Since this type of pay is discretionary, it is not considered regular compensation.

2. Retirees:

Sixteen retirees were reviewed as part of the audit. Three of them had errors in their calculations. Two are the ones mentioned in the first finding with Christmas/New Year's Day stand-by pay included in the three-year average salary. A third had an understated average salary due to the way a medical leave inside the three-year period was handled.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

A fourth retiree was found who was being paid under option B instead of option A.

The Board is calculating three-year average salaries by using the deductions. There were two retirees who had checks with deductions higher than normal for which we did not receive explanations.

Recommendation: All four retirees mentioned must be corrected. Since this involves retiree benefits, any amount owed to them or by them has to include interest at the Board's correction of errors rate.

The Board should use payroll records to calculate retiree three-year average salaries. Increases in pay that happen for reasons that are not obvious should be investigated. The Board should gather and evaluate the answers to the two retirees for whom we requested additional information.

Board Response:

The Board is in the process of correcting as far as practicable the records of the four retirees, following which payments will be adjusted and interest paid pursuant to the statutory requirements of G.L. c. 32, s. 20(S)(c), and the Board's supplemental regulation.

Payroll records will be utilized when calculating high three/five year average salaries and explanations of the higher than normal deductions will be obtained from the officer in charge of payroll.

3. Board Administration:

Board members did not see any monthly cash reconciliations from the start of the audit period through November 2021.

Board members saw accounting for most months beginning in 2017, but there were occasional accounting records not presented to them, such as October-December 2017 and five months in 2019.

Recommendation: Cash reconciliations, including any appropriate bank statements, should be part of the Board's financial package.

The Board should see all twelve months of accounting in each year.

Board Response:

Internal controls are a high priority for the Board. Cash reconciliations and bank statements are being provided to the Board members monthly for review and such is now documented in the minutes of the monthly Board meetings.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all findings.

ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2019	2018	2017	2016
Net Assets Available For Benefits:				
Cash	\$2,719,298	\$3,161,843	\$4,416,532	\$3,176,890
Fixed Income Securities	0	33,596,858	33,588,616	30,536,695
Pooled Domestic Equity Funds	25,207,136	47,669,612	52,239,716	46,201,416
Pooled International Equity Funds	7,630,052	3,731,557	4,339,963	3,553,661
Pooled Domestic Fixed Income Funds	34,845,110	0	0	0
Pooled Alternative Investment Funds	2,688,830	2,089,087	1,724,974	1,628,674
Pooled Real Estate Funds	9,094,701	8,383,702	7,980,863	7,360,411
Pooled Domestic Balanced Funds	46,840,117	0	0	0
Hedge Funds	9,031,119	0	0	0
PRIT Core Fund	46,897,536	60,393,600	61,954,860	52,640,546
Interest Due and Accrued	0	222,410	214,706	189,310
Accounts Receivable	751	58,266	95,869	51,430
Accounts Payable	(192,042)	(78,133)	(140,258)	0
Total	<u>\$184,762,608</u>	<u>\$159,228,802</u>	<u>\$166,415,841</u>	<u>\$145,339,033</u>
Fund Balances:				
Annuity Savings Fund	\$33,477,651	\$33,128,747	\$31,799,996	\$30,799,253
Annuity Reserve Fund	9,375,601	8,324,504	7,959,818	7,105,163
Pension Fund	440,837	(719,371)	770,833	1,178,367
Military Service Fund	4,502	4,497	4,493	4,488
Expense Fund	0	0	0	0
Pension Reserve Fund	141,464,017	118,490,425	125,880,701	106,251,763
Total	<u>\$184,762,608</u>	<u>\$159,228,802</u>	<u>\$166,415,841</u>	<u>\$145,339,033</u>

ANNUAL STATEMENTS (as submitted) (Continued)

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 2016	\$29,242,180	\$6,615,554	\$1,393,241	\$4,484	\$0	\$96,511,306	\$133,766,764
Receipts	3,760,355	202,711	5,507,079	4	897,862	10,272,232	20,640,243
Interfund Transfers	(1,675,536)	1,675,536	531,776	0	0	(531,776)	0
Disbursements	(527,746)	(1,388,638)	(6,253,729)	0	(897,862)	0	(9,067,975)
Ending Balance 2016	30,799,253	7,105,163	1,178,367	4,488	(0)	106,251,762	145,339,032
Receipts	3,810,350	221,908	5,825,329	4	967,639	20,559,634	31,384,865
Interfund Transfers	(2,073,401)	2,203,155	800,942	0	0	(930,696)	0
Disbursements	(736,206)	(1,570,408)	(7,033,804)	0	(967,639)	0	(10,308,057)
Ending Balance 2017	31,799,996	7,959,818	770,833	4,493	(0)	125,880,701	166,415,841
Receipts	4,079,443	235,578	6,117,500	4	1,166,197	(7,238,195)	4,360,528
Interfund Transfers	(1,642,413)	1,794,494	0	0	0	(152,081)	0
Disbursements	(1,108,280)	(1,665,386)	(7,607,704)	0	(1,166,197)	0	(11,547,567)
Ending Balance 2018	33,128,747	8,324,504	(719,371)	4,497	(0)	118,490,425	159,228,802
Receipts	4,210,699	267,324	6,893,248	5	1,272,913	25,023,172	37,667,360
Interfund Transfers	(2,721,606)	2,599,142	2,172,044	0	0	(2,049,580)	0
Disbursements	(1,140,189)	(1,815,368)	(7,905,083)	0	(1,272,913)	0	(12,133,554)
Ending Balance 2019	<u>\$33,477,651</u>	<u>\$9,375,601</u>	<u>\$440,837</u>	<u>\$4,502</u>	<u>(\$0)</u>	<u>\$141,464,017</u>	<u>\$184,762,608</u>

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Members Deductions	\$3,494,122	\$3,310,751	\$3,180,229	\$3,036,033
Transfers from Other Systems	641,671	661,804	498,168	577,357
Member Make Up Payments and Re-deposits	34,966	60,597	63,432	18,637
Member Payments from Rollovers	0	4,189	18,549	86,240
Investment Income Credited to Member Accounts	39,940	42,102	49,971	42,088
Sub Total	<u>4,210,699</u>	<u>4,079,443</u>	<u>3,810,350</u>	<u>3,760,355</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>267,324</u>	<u>235,578</u>	<u>221,908</u>	<u>202,711</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	946,497	389,047	326,781	272,824
Pension Fund Appropriation	28,415	60,552	22,854	76,878
Recovery of 91A Overearnings	5,918,336	5,667,902	5,475,693	5,157,377
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,893,248</u>	<u>6,117,500</u>	<u>5,825,329</u>	<u>5,507,079</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>1,272,913</u>	<u>1,166,197</u>	<u>967,639</u>	<u>897,862</u>
Pension Reserve Fund:				
Pension Reserve Appropriation	0	0	0	4,901
Interest Not Refunded	2,483	10,839	5,539	0
Miscellaneous Income	3,468	3,098	2,231	0
Excess Investment Income	<u>25,017,221</u>	<u>(7,252,132)</u>	<u>20,551,865</u>	<u>10,267,331</u>
Sub Total	<u>25,023,172</u>	<u>(7,238,195)</u>	<u>20,559,634</u>	<u>10,272,232</u>
Total Receipts, Net	<u>\$37,667,360</u>	<u>\$4,360,528</u>	<u>\$31,384,865</u>	<u>\$20,640,243</u>

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2019	2018	2017	2016
Annuity Savings Fund:				
Refunds to Members	\$151,412	\$165,747	\$217,651	\$137,542
Transfers to Other Systems	<u>988,777</u>	<u>942,533</u>	<u>518,554</u>	<u>390,204</u>
Sub Total	<u>1,140,189</u>	<u>1,108,280</u>	<u>736,206</u>	<u>527,746</u>
Annuity Reserve Fund:				
Annuities Paid	1,815,368	1,596,585	1,513,093	1,323,383
Option B Refunds	<u>0</u>	<u>68,802</u>	<u>57,315</u>	<u>65,254</u>
Sub Total	<u>1,815,368</u>	<u>1,665,386</u>	<u>1,570,408</u>	<u>1,388,638</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	6,455,980	5,845,294	5,601,220	5,041,500
Survivorship Payments	177,975	161,201	152,026	151,935
Ordinary Disability Payments	58,891	57,694	58,901	75,246
Accidental Disability Payments	498,581	477,000	513,218	482,554
Accidental Death Payments	167,748	170,685	168,525	152,659
3 (8) (c) Reimbursements to Other Systems	545,908	895,830	539,914	336,129
Sub Total	<u>7,905,083</u>	<u>7,607,704</u>	<u>7,033,804</u>	<u>6,253,729</u>
Expense Fund:				
Salaries	147,670	96,964	86,976	83,528
Legal Expenses	0	13,239	6,919	3,122
Travel Expenses	1,793	320	0	1,927
Administrative Expenses	81,751	121,996	98,841	97,341
Professional Services	11,970	11,850	11,496	4,363
Actuarial Services	19,325	25,225	20,000	19,635
Education and Training	2,632	1,332	3,831	3,528
Furniture and Equipment	3,111	1,380	7,147	0
Management Fees	922,155	763,707	684,658	638,445
Custodial Fees	11,211	21,196	20,402	19,219
Consultant Fees	66,950	65,000	0	0
Service Contracts	0	39,648	23,440	22,525
Fiduciary Insurance	4,345	4,340	3,930	4,228
Sub Total	<u>1,272,913</u>	<u>1,166,197</u>	<u>967,639</u>	<u>897,862</u>
Total Disbursements	<u>\$12,133,554</u>	<u>\$11,547,567</u>	<u>\$10,308,057</u>	<u>\$9,067,975</u>

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Investment Income Received From:				
Cash	\$88,091	\$67,829	\$43,054	\$19,192
Fixed Income	1,181,986	1,079,005	1,059,019	985,375
Pooled or Mutual Funds	2,335,267	2,873,846	6,147,735	2,547,867
Commission Recapture	(10,832)	0	0	0
Total Investment Income	<u>3,594,513</u>	<u>4,020,680</u>	<u>7,249,808</u>	<u>3,552,433</u>
Plus:				
Realized Gains	26,511,342	3,423,324	4,155,301	33,329,048
Unrealized Gains	24,966,357	13,312,559	15,514,744	15,018,481
Interest Due and Accrued - Current Year	0	222,410	214,706	189,310
Sub Total	<u>51,477,700</u>	<u>16,958,292</u>	<u>19,884,750</u>	<u>48,536,839</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	(650)	(86,616)	(135,831)	(97,652)
Realized Loss	(95,017)	(4,510,213)	(427,095)	(27,986,997)
Unrealized Loss	(28,156,733)	(21,975,687)	(4,590,934)	(12,399,599)
Interest Due and Accrued - Prior Year	(222,410)	(214,706)	(189,310)	(195,028)
Sub Total	<u>(28,474,810)</u>	<u>(26,787,222)</u>	<u>(5,343,171)</u>	<u>(40,679,276)</u>
Net Investment Income	<u>26,597,402</u>	<u>(5,808,250)</u>	<u>21,791,387</u>	<u>11,409,997</u>
Income Required:				
Annuity Savings Fund	39,940	42,102	49,971	42,088
Annuity Reserve Fund	267,324	235,578	221,908	202,711
Military Service Fund	5	4	4	4
Expense Fund	1,272,913	1,166,197	967,639	897,862
Total Income Required	<u>1,580,181</u>	<u>1,443,881</u>	<u>1,239,523</u>	<u>1,142,665</u>
Net Investment Income	26,597,402	(5,808,250)	21,791,387	11,409,997
Less: Total Income Required	1,580,181	1,443,881	1,239,523	1,142,665
Excess Income (Loss) To The Pension Reserve Fund	<u>\$25,017,221</u>	<u>(\$7,252,132)</u>	<u>\$20,551,865</u>	<u>\$10,267,331</u>

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2019		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,719,298	1.5%
Pooled Domestic Equity Funds	25,207,136	13.6%
Pooled International Equity Funds	7,630,052	4.1%
Pooled Domestic Fixed Income Funds	34,845,110	18.8%
Pooled Alternative Investment Funds	2,688,830	1.5%
Pooled Real Estate Funds	9,094,701	4.9%
Pooled Domestic Balanced Funds	46,840,117	25.3%
Hedge Funds	9,031,119	4.88%
PRIT Core Fund	<u>46,897,536</u>	<u>25.4%</u>
Grand Total	<u>\$184,953,899</u>	<u>100.0%</u>

For the year ending December 31, 2019, the rate of return for the investments of the Concord Retirement System was 16.76%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Concord Retirement System averaged 7.27%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Concord Retirement System was 8.61%.

The composite rate of return for all retirement systems for the year ending December 31, 2019 was 16.90%. For the five-year period ending December 31, 2019, the composite rate of return for the investments of all retirement systems averaged 7.95%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.22%.

SUPPLEMENTARY INFORMATION (Continued)

SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Concord 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.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (Continued)

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 \$952.32 per year (or \$312 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 \$952.32 per year, per child (or \$312 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 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (Continued)

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.

SUPPLEMENTARY INFORMATION (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.

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2021.

The actuarial liability for active members was	\$105,615,602
The actuarial liability for inactive members was	2,614,289
The actuarial liability for retired members was	<u>111,597,008</u>
The total actuarial liability was	\$219,826,899
System assets as of that date were (actuarial value)	<u>195,684,810</u>
The unfunded actuarial liability was	<u>\$24,142,089</u>
The ratio of system's assets to total actuarial liability was	89.0%
As of that date the total covered employee payroll was	\$37,708,435

The normal cost for employees on that date was 9.4% of payroll

The normal cost for the employer including administrative expenses was 8.1% of payroll

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

Investment Return: 6.50% per annum
 Rate of Salary Increase: Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2021

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)
1/1/2021	\$195,685,000	\$219,827,000	\$24,142,000	89.0%	\$37,708,000	64.0%
1/1/2020	\$180,248,000	\$203,474,000	\$23,226,000	88.6%	\$35,272,000	65.8%
1/1/2019	\$167,095,000	\$194,115,000	\$27,020,000	86.1%	\$33,406,000	80.9%
1/1/2018	\$159,853,000	\$184,724,000	\$24,871,000	86.5%	\$32,140,000	77.4%
1/1/2017	\$148,500,000	\$174,390,000	\$25,890,000	85.2%	\$31,626,000	81.9%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Retirement in Past Years										
Superannuation	11	19	13	13	13	21	15	17	18	18
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	11	19	13	13	13	21	15	17	18	18
Total Retirees, Beneficiaries and Survivors	255	263	267	269	277	277	287	292	303	318
Total Active Members	475	499	496	507	519	493	536	526	531	556
Pension Payments										
Superannuation	\$3,392,296	\$3,489,185	\$3,818,181	\$3,960,142	\$4,323,966	\$4,711,854	\$5,041,500	\$5,601,220	\$5,845,294	\$6,455,980
Survivor/Beneficiary Payments	97,211	104,336	106,849	115,866	130,838	138,373	151,935	152,026	161,201	177,975
Ordinary Disability	96,173	98,350	99,278	89,278	91,130	81,363	75,246	58,901	57,694	58,891
Accidental Disability	558,794	527,488	520,946	529,665	521,891	496,132	482,554	513,218	477,000	498,581
Other	<u>353,011</u>	<u>509,745</u>	<u>423,060</u>	<u>465,610</u>	<u>470,150</u>	<u>538,779</u>	<u>502,494</u>	<u>708,439</u>	<u>1,066,515</u>	<u>713,656</u>
Total Payments for Year	<u>\$4,497,485</u>	<u>\$4,729,104</u>	<u>\$4,968,313</u>	<u>\$5,160,562</u>	<u>\$5,537,974</u>	<u>\$5,966,501</u>	<u>\$6,253,729</u>	<u>\$7,033,804</u>	<u>\$7,607,704</u>	<u>\$7,905,083</u>

SUPPLEMENTARY INFORMATION (Continued)

LEASED PREMISES

The Concord Retirement Board leases approximately 1,265 square feet of space for its offices located at 2250 Main Street in Concord. The most recent lease was signed August 2021 and goes through August 31, 2026. The landlord is REAFS Edge, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of August 2021:

<u>For the year ending:</u>	<u>Annual Rent</u>
2021	\$ 9,200.00
2022	28,014.00
2023	29,274.64
2024	30,664.00
2025	32,184.60
2026 (through August)	<u>22,083.92</u>
Total future minimum lease payments required	<u>\$151,421.16</u>

A \$2,300.00 security deposit was required at the beginning of the lease.



COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

WILLIAM T. KEEFE, *Executive Director*

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

March 25, 2024

Peter J. Fulton, Chairperson
Concord Retirement Board
2250 Main Street
West Concord, MA 01742

REFERENCE: Report of the Examination of the Concord Retirement Board for the four-year period from January 1, 2016 through December 31, 2019.

Dear Chairperson Fulton:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Concord 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 a review of School and Highway and Grounds Division payroll registers included pay types that were not regular compensation that had retirement contributions withheld and regular compensation that did not have retirement contributions withheld.

Follow-up Result: We were unable to test payroll for the school as it was not provided by the School Department. The Highway and Grounds Division's pay for being on stand-by on Christmas and New Year's Day still has contributions withheld. Since this type of pay is discretionary, it is not considered regular compensation. The contributions should be refunded. The issue is not resolved.

2. The Audit Report cited a finding that there were various errors related to members who retired during the audit period. These included two retirees with overstated average salaries and one with an understated average salary. A fourth was being paid under option B instead of option A.



Concord follow up letter
March 25, 2024
Page Two

Follow-up Result: The allowance was recalculated for the retiree with an understated average salary. The retiree that was being paid under option B has been changed to option A. Both retirees are now being paid the correct amount. However, the allowances for the two retirees with Christmas and New Year's Day stand-by pay included have not been recalculated. The issue is partially resolved.

3. The Audit Report cited a finding that Board members did not see monthly cash reconciliations and that there were some months whose accounting records were also not provided.

Follow-up Result: We read the minutes from November 2022 through October 2023, and found that the Board has been reviewing accounting reports but there has been no mention of cash reconciliations being provided since May 2023. This issue is partially resolved.

The additional matters discussed have been reviewed and have been partially 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,

A handwritten signature in black ink that reads "Bill Keefe". The signature is written in a cursive, flowing style.

William T. Keefe
Executive Director

WTK/tal
cc: Concord Retirement Board Members