Hampden County Regional Contributory Retirement System
Audit Report
January 1, 2018 - December 31, 2020

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC
COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

September 8, 2022

The Public Employee Retirement Administration Commission has completed an examination of the Hampden County Regional Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2018 to December 31, 2020. 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 examiners 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

Follow-up of Prior Audit

1. Findings Updated:

Our prior audit of the HCRB covered the period January 1, 2014 through December 31, 2017 and contained a number of findings. Our current audit found that the HCRB adequately resolved several of the following issues. Also presented are pertinent updates of what transpired during the current audit period.

a. Board Expenses for Services not Received

Our prior audit found that HCRB paid more than $235,000 to over 50 entities from 2013 through 2018 for services described as "search engine optimization" or "online directory listings" that were a scam. The prior audit recommended HCRB should follow proper procurement procedures, improve its exercise of due diligence, and more closely monitor the actions of its vendors. We also recommended that HCRB should consider pursuing recovery actions against these vendors.

Our current audit found that the HCRB strengthened its policies relative to the payment of invoices to outside vendors. Prior to payment, invoices must be identified as pursuant to an ongoing contract and for services rendered, and any invoice that does not meet these criteria will be reviewed with legal counsel and verified prior to any payment. The last payment for these types of services was in March 2020. Prior to ceasing payment for these services, HCRB incurred an additional $8,973 of expenses for these scam payments. With respect to pursuing recovery actions against the vendors, letters were sent to several of the firms previously paid and they were returned as undeliverable. The board approached their legal counsel to determine if an insurance claim to recover the funds could be made and board counsel is studying the issue. To date, none of the funds have been recovered.

Board Response:

The prior audit revealed that the HCRB fell victim to a "search engine optimization" or "online directory listing" scam which resulted in creating new policies and procedures which include procurement, greater due diligence, and increased monitoring of vendors through requirements of "W-9" forms prior to making payments under written contracts reviewed by legal counsel.

In addition, the HCRB has been pursuing recovery from the scam directly and is cooperating with the state law enforcement authorities to seek restitution. A claim has also been submitted to the HCRB insurer.

b. Bank Service Charges

Our prior audit found that HCRB paid $87,229 in bank service charges even though they had significant balances on deposit and, prior to October 2014, did not incur any charges. We recommended HCRB closely monitor expenses being paid.

Our current audit found that the accounts in question were closed and transferred to another bank that doesn't charge fees. Additionally, the new bank pays interest and periodic additional monies that are called bonus payment Relationship Rewards. Although the Board's response to the finding said the accounts were closed in July 2019, we found they were not totally closed until November 2020, during which time an additional $3,923 of fees were incurred.

Board Response:
The prior audit found that the HCRB paid bank service charges despite significant balances on deposit as a result of Bank of America taking over the prior servicing bank. However, it should be noted that significant interest was collected on those deposits, offsetting costs, and that, while the accounts have since been transferred to a different banking facility where no service charges are incurred, the Bank of America account needed to remain open until all outstanding checks were cleared from venders and retirees as the bank allows for 180 days before items are deemed "stale" resulting in some additional fees.

c. Board Attorneys
Our prior audit found HCRB employed two attorneys as independent contractors but treated them as employees, enrolling them in the board's health insurance program and making them members of the retirement system. Statutorily the attorneys are not allowed to be members of the system. We recommended that HCRB cease treating the attorneys as employees, refund the contributions, rescind any creditable service granted, and conduct a procurement for legal services.

Our current audit found that HCRB ceased treating attorneys as employees, refunded their contributions and rescinded service credit that was granted. They also conducted a competitive procurement for legal services and have properly hired two outside attorneys, working jointly. During this audit period, HCRB incurred an additional $174,985 of health and dental insurance costs until the second of the two prior attorneys resigned in February 2021.

Board Response:
In the past, HCRB employed attorneys, but this practice has ceased, and legal services are now procured through a competitive process. Current attorneys do not receive any employment benefits.

d. Travel
Our prior audit found three Board members attended three all-expenses paid (except airfare) conferences put on by the HCRB investment consultant. We recommended HCRB should review, adhere to, and where applicable, participate in training on PERAC's regulations on travel and G.L. c. 268A, the state's conflict of interest law.

Our current audit found that the Board contacted the conference provider and was told that the hotel and transportation costs that were provided amounted to $7,983. HCRB reimbursed the conference provider this amount on December 1, 2020. We didn't find any other instances of this type of travel. The board also updated their travel regulation.

Board Response:
Regarding the regulation of travel by the Board and its employees, an updated Travel policy was approved by vote of the Board as well as PERAC and is posted on the PERAC website.

e. Board Expense Documentation
Our prior audit identified certain expenses that were questionable or not properly documented: payment of Social Security for three Board members contrary to State law, Board Chair salary increases without authorization, questionable lodging expenses reimbursed to the Board Chair, and

questionable or insufficiently documented overtime costs. We recommended that HCRB stop paying Social Security for the Board members, institute a procedure to have future Board Chair salary increases be voted on at a Board meeting, review the questionable travel reimbursement and, if warranted, seek recoupment, and institute policies and procedures regarding the usage, approval and documentation of overtime.

Our current audit found Social Security payments stopped in September 2020. HCRB contacted Social Security and received reimbursement of $11,673 for payments made for the 2018-2020 period. Social Security said they couldn't reimburse payments for years prior to 2018, as there is a 3-year lookback window limit; this decision has been appealed.

The Board Chair received additional 2% salary increases in 2018, 2019, and 2020 which raised the salary amount by $1,682 without Board approval. HCRB has adopted a written policy requiring the Board to annually review and approve any change to the Chair's salary and we found that since our prior audit was released, no additional salary increases were paid to the Board chair.

For the Board Chair lodging, we found the Chair incurred additional questionable lodging charges in June 2018 and 2019 totaling $805. However, he reimbursed HCRB a total of $5,650 for lodging submitted for the period of 2007 through 2019. On April 28, 2022, the State Ethics Commission found the lodging expenses submitted for reimbursement by the former Board Chair violated provisions of the state ethics law. The Commission entered into a disposition agreement whereby the former Board Chair paid a $10,000 civil penalty for those violations.

Lastly, the amount of overtime did not significantly change during the audit period. HCRB adopted an overtime policy that was approved by PERAC as of September 27, 2021.

Board Response:
The Board has adopted an overtime policy to limit unnecessary expenses. The HCRB received reimbursement for questionable travel expenses, return of social security payments, and a claim has been submitted to HCRB's insurer for any losses which may be covered by policies of insurance.

f. Monthly Financial Information
The prior audit identified certain concerns with HCRB's budget and financial oversight process. These items include exceeding the 2017 budget by 6.5%; utilizing a fiscal year budget and a calendar year accounting system; budget items not correlating to expense accounts; lack of bank statement reconciliations for checking and money market accounts being presented to the Board; and stale checks. We recommended the budget and accounting system work on the same calendar year, review budget to actual spending throughout the year, and have budget categories correspond to the accounting system. For cash, the Board should obtain reconciled bank statements and compare them to the general ledger. Old outstanding checks should be restored to the account balance.

Our current audit found that a 6-month budget was adopted for the July through December 2021 period and the budget period will be prepared on a calendar year basis starting in 2022. Budget accounts now correspond with the general ledger and budget to actual expense activity is periodically monitored. Regarding cash, reconciled balances are provided to the Board and, from September 2019 onward, the reconciliations agree with the general ledger. Old outstanding items have been cleared. They also procured a new accounting system that came online after the audit fieldwork had been completed.

Current Audit Findings

2. Cash Management:
HCRB does not have a formal cash management plan. A cash management plan is important to help ensure that excess funds are invested to maximize earnings as well as ensure that sufficient cash is available to meet immediate needs. HCRB has kept sufficient funds on hand to meet immediate needs, but at the expense of not closely monitoring and transferring funds to higher earning investments.

Two examples of the need to more closely monitor investments follow. For the first example, HCRB kept an average of $14.3 million in its money market account during calendar year 2020, ranging from a high of $26.7 million to a low of $5.7 million. Since the average monthly expense warrants are just over $4 million, excess funds are being kept in the money market account that could be invested in the PRIT investment fund for greater earnings. Secondly, we found that receipts of member unit appropriations in July and August of 2020 totaled $28.5 million, but only $12 million was transferred to PRIT and received additional earnings.

Subsequent to the audit period, HCRB developed a cash management policy and submitted it to PERAC for approval.

Recommendation: HCRB should adhere to the cash management policy and monitor fund balances with a goal of maximizing investment earnings.

Board Response:
As to the current audit the Board approved a new cash management policy which was submitted to PERAC and has been approved. It is posted on the PERAC website. We believe we are one of the few retirement boards in Massachusetts to have a formal cash management policy of this nature.

3. Federal Tax Forms:
HCRB has not requested Federal tax form W-9, Request for Taxpayer Identification Number and Certification, for all vendors they do business with. It would be good practice to request the W-9 forms for all vendors. Doing so will help ensure that they are following proper IRS regulations and are filing the necessary tax reporting forms. Subsequent to the audit period, HCRB requested W-9 forms from a few, but not all, of its vendors.

Recommendation: HCRB should request Federal tax form W-9 from all current vendors.

Board Response:
The HCRB has increased its due diligence with regard to procurement and vendor monitoring. Part of the changes have involved a policy to require and monitor all W-9 forms to assure compliance with IRS regulation, and to enforce contract compliance by vendors.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

4. Questionable Affidavit
A notarized affidavit was submitted in November 2019 for a retiree after the retiree died in September 2019. HCRB had been holding the retiree's checks because the affidavit wasn't returned but released them when the retiree's son-in-law turned in a notarized affidavit and noted that he was the person with power of attorney. HCRB released the held checks, set the retiree up to continue receiving direct deposits, and asked the son-in-law to provide the power of attorney document, which was never returned.

In September 2020, HCRB was notified that the retiree had died, and they initiated follow up steps including sending a demand letter to the individual that turned in the affidavit seeking repayment of $27,111 and also notifying the state Attorney General's Office.

Recommendation: HCRB should continue to monitor the status of this case and attempt to collect the funds that were overpaid. In the future, HCRB should improve verification of a member's status before releasing funds being held, as well as consider procuring a third-party program that would provide a timely death match.

Board Response: The HCRB was the victim of fraud by a person submitting an affidavit claiming to have been signed by a retiree who was still alive, but who was in fact deceased. The Board has been working to obtain restitution through state law enforcement authorities who investigated. The HCRB has cooperated in the investigation, and no HCRB employees were complicit with any wrongdoing. Law enforcement authorities are pursuing criminal prosecution against the wrongdoer. The HCRB is seeking restitution. In addition, the HCRB is in the process of considering third-party programs providing death index information to supplement traditional practices for verification by affidavit.

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, 2020	2019	2018
Net Assets Available For Benefits:			
Cash	$8,879,412	$8,318,255	$6,592,877
Pooled Alternative Investment Funds	806,016	1,344,141	2,329,770
PRIT Cash Fund	0	1,165,914	86
PRIT Core Fund	445,761,435	398,679,746	347,853,260
Prepaid Expenses	4,177	4,177	4,177
Accounts Receivable	960,033	722,823	760,010
Accounts Payable	0	0	0
Total	$456,411,074	$410,235,056	$357,540,181
Fund Balances:			
Annuity Savings Fund	111,003,569	107,850,749	104,369,099
Annuity Reserve Fund	33,866,261	32,616,460	31,423,308
Pension Fund	0	0	0
Military Service Fund	50,099	50,049	51,852
Expense Fund	0	0	0
Pension Reserve Fund	311,491,145	269,717,799	221,695,923
Total	$456,411,074	$410,235,056	$357,540,181

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 2018	$102,275,064	$29,515,062	$0	$51,993	$0	$237,604,367	$369,446,486
Receipts	12,108,341	890,367	29,650,162	52	2,817,749	(10,281,302)	35,185,369
Interfund Transfers	(7,892,651)	7,864,657	5,655,329	(193)	0	(5,627,142)	0
Disbursements	(2,121,656)	(6,846,778)	(35,305,491)	0	(2,817,749)	0	(47,091,674)
Ending Balance 2018	104,369,099	31,423,308	0	51,852	0	221,695,923	357,540,181
Receipts	13,012,898	919,204	32,034,068	5,822	2,807,162	53,826,215	102,605,369
Interfund Transfers	(7,513,660)	7,521,294	5,804,330	(7,625)	0	(5,804,339)	0
Disbursements	(2,017,588)	(7,247,346)	(37,838,398)	0	(2,807,162)	0	(49,910,494)
Ending Balance 2019	107,850,749	32,616,460	0	50,049	0	269,717,799	410,235,056
Receipts	13,266,617	974,309	34,126,170	50	2,841,094	45,768,091	96,976,331
Interfund Transfers	(8,143,000)	8,140,640	3,997,106	0	0	(3,994,746)	0
Disbursements	(1,970,796)	(7,865,147)	(38,123,276)	0	(2,841,094)	0	(50,800,314)
Ending Balance 2020	$111,003,569	$33,866,261	$0	$50,099	$0	$311,491,145	$456,411,074

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2020	2019	2018
Annuity Savings Fund:			
Members Deductions	$11,624,197	$11,274,416	$10,684,033
Transfers from Other Systems	1,293,922	1,416,897	1,052,551
Member Make Up Payments and Re-deposits	81,822	42,564	55,538
Member Payments from Rollovers	109,402	117,089	153,935
Investment Income Credited to Member Accounts	157,274	161,933	162,284
Sub Total	13,266,617	13,012,898	12,108,341
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	974,309	919,204	890,367
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	901,618	852,033	755,487
Received from Commonwealth for COLA and Survivor Benefits	215,043	245,140	417,416
Pension Fund Appropriation	32,988,702	30,918,798	28,461,099
Settlement of Workers' Compensation Claims	14,753	9,448	16,093
Recovery of 91A Overearnings	6,055	8,649	67
Sub Total	34,126,170	32,034,068	29,650,162
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	5,766	0
Investment Income Credited to the Military Service Fund	50	56	52
Sub Total	50	5,822	52
Expense Fund:			
Investment Income Credited to the Expense Fund	2,841,094	2,807,162	2,817,749
Pension Reserve Fund:			
Pension Reserve Appropriation	347,941	105,647	244,137
Interest Not Refunded	567	66	95
Miscellaneous Income	8,577	7,196	454
Excess Investment Income	45,411,006	53,713,307	(10,525,988)
Sub Total	45,768,091	53,826,215	(10,281,302)
Total Receipts, Net	$96,976,331	$102,605,369	$35,185,369

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2020	2019	2018
Annuity Savings Fund:			
Refunds to Members	$949,258	$1,219,218	$1,057,302
Transfers to Other Systems	1,021,539	798,370	1,064,355
Sub Total	1,970,796	2,017,588	2,121,656
Annuity Reserve Fund:			
Annuities Paid	7,765,131	7,123,918	6,650,160
Option B Refunds	100,017	123,428	196,618
Sub Total	7,865,147	7,247,346	6,846,778
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	29,817,933	27,915,253	26,405,948
Survivorship Payments	1,328,079	1,250,413	1,268,700
Ordinary Disability Payments	233,024	238,273	235,284
Accidental Disability Payments	3,910,519	3,799,055	3,663,004
Accidental Death Payments	887,327	889,641	866,753
Section 101 Benefits	118,235	122,300	130,822
3 (8) (c) Reimbursements to Other Systems	1,828,159	3,623,463	2,734,979
Sub Total	38,123,276	37,838,398	35,305,491
Expense Fund:			
Board Member Stipend	42,499	42,441	41,853
Salaries	271,105	255,185	252,664
Benefits	332,268	278,628	269,748
Legal Expenses	55,800	55,800	41,777
Medical Expenses	44	9	1,375
Travel Expenses	10,043	10,623	13,243
Administrative Expenses	30,618	38,701	92,328
Actuarial Services	0	5,500	29,000
Accounting Services	0	33,000	33,000
Education and Training	1,030	8,450	7,830
Furniture and Equipment	9,048	0	0
Management Fees	1,928,159	1,923,531	1,883,974
Consultant Fees	45,458	44,833	43,000
Rent Expenses	50,127	50,127	50,127
Service Contracts	35,119	31,147	29,940
Fiduciary Insurance	29,775	29,187	27,889
Sub Total	2,841,094	2,807,162	2,817,749
Total Disbursements	$50,800,314	$49,910,494	$47,091,674

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2020	2019	2018
Investment Income Received From:			
Cash	$77,924	$171,446	$61,381
Pooled or Mutual Funds	8,957,502	9,847,129	9,690,421
Total Investment Income	9,035,426	10,018,575	9,751,803
Plus:			
Realized Gains	19,379,304	19,596,914	16,549,696
Unrealized Gains	72,677,076	45,178,248	12,806,559
Sub Total	92,056,380	64,775,162	29,356,256
Less:			
Paid Accrued Interest on Fixed Income Securities			
Realized Loss	(2,543,625)	0	(29,640)
Unrealized Loss	(49,164,448)	(17,192,075)	(45,733,954)
Sub Total	(51,708,072)	(17,192,075)	(45,763,594)
Net Investment Income	49,383,733	57,601,662	(6,655,536)
Income Required:			
Annuity Savings Fund	157,274	161,933	162,284
Annuity Reserve Fund	974,309	919,204	890,367
Military Service Fund	50	56	52
Expense Fund	2,841,094	2,807,162	2,817,749
Total Income Required	3,972,727	3,888,355	3,870,452
Net Investment Income	49,383,733	57,601,662	(6,655,536)
Less: Total Income Required	3,972,727	3,888,355	3,870,452
Excess Income (Loss) To The Pension Reserve Fund	$45,411,006	$53,713,307	($10,525,988)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2020	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$8,879,412	1.9%
Pooled Alternative Investment Funds	806,016	0.2%
PRIT Core Fund	445,761,435	97.9%
Grand Total	$455,446,863	100.0%

For the year ending December 31, 2020, the rate of return for the investments of the Hampden County Regional Retirement System was 12.24%. For the five-year period ending December 31, 2020, the rate of return for the investments of the Hampden County Regional Retirement System averaged 10.14%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hampden County Regional Retirement System was 8.76%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the five-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 10.38%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.31%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hampden County Regional 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.

NOTES TO FINANCIAL STATEMENTS (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.

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.

NOTES TO FINANCIAL STATEMENTS (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.

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 $980.88 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 $980.88 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.

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.

NOTES TO FINANCIAL STATEMENTS (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.

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 primarily relies upon the investment strategy of the PRIM Board to maintain their 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of a Chairperson who shall be elected by the other four members, a second member appointed by the advisory council, 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.

Chairperson:	Karl J. Schmaelzle	Term Expires	12/31/2027
Appointed Member:	Michelle Hill	Term Expires:	12/31/2024
Elected Member:	Robert Taylor	Term Expires:	01/10/2025
Elected Member:	Thomas Sullivan	Term Expires:	05/03/2025
Appointed Member:	Patrick E. O'Neil	Term Expires:	12/01/2024

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 Hampden County Regional Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at https://www.mass.gov/hampden-county-regional-retirement-board-regulations.

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$337,901,573
The actuarial liability for vested terminated members was	8,491,106
The actuarial liability for non-vested terminated members was	2,880,848
The actuarial liability for retired members was	467,844,484
The total actuarial liability was	$817,118,011
System assets as of that date were (actuarial value)	398,205,608
The unfunded actuarial liability was	$418,912,403
The ratio of system's assets to total actuarial liability was	48.7%
As of that date the total covered employee payroll was	$120,106,229

The normal cost for employees on that date was	10.0% of payroll
The normal cost for the employer including administrative expenses was	6.7% of payroll

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

Investment Return:	7.15% per annum
Rate of Salary Increase:	Varies by 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	$398,205,608	$817,118,011	$418,912,403	48.7%	$120,106,229	348.8%
1/1/2018	$356,865,958	$727,449,346	$370,583,388	49.1%	$109,713,930	337.8%
1/1/2016	$312,189,255	$656,842,104	$344,652,849	47.5%	$102,983,302	334.7%
1/1/2014	$266,930,021	$565,522,818	$298,592,797	47.2%	$100,077,260	298.4%
1/1/2012	$244,053,652	$499,009,329	$254,955,677	48.9%	$94,037,543	271.1%
1/1/2010	$220,585,830	$422,756,972	$202,171,142	52.2%	$91,149,295	221.8%

* Beginning with January 1, 2016 valuation, we used actual payroll as covered payroll.

NOTE 5 - MEMBERSHIP EXHIBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Retirement in Past Years										
Superannuation	67	62	69	80	99	86	76	101	98	111
Ordinary Disability	0	0	0	0	0	1	1	1	0	0
Accidental Disability	2	2	4	6	3	4	4	5	2	2
Total Retirements	69	64	73	86	102	91	81	107	100	113
Total Retirees, Beneficiaries and Survivors	1,553	1,554	1,590	1,619	1,659	1,702	1,716	1,760	1,820	1,989
Total Active Members	2,513	2,515	2,538	2,535	2,626	2,686	2,830	2,879	2,995	2,843
Pension Payments										
Superannuation	$16,878,668	$18,052,488	$19,205,727	$20,509,601	$21,995,560	$23,660,297	$24,887,572	$26,405,948	$27,915,253	$29,817,933
Survivor/Beneficiary Payments	878,179	1,054,353	949,848	992,597	1,072,681	1,089,903	1,201,076	1,268,700	1,250,413	1,328,079
Ordinary Disability	271,391	263,478	269,629	293,364	278,776	282,177	243,037	235,284	238,273	233,024
Accidental Disability	2,690,473	2,786,103	2,904,796	3,014,701	3,165,395	3,418,456	3,533,644	3,663,004	3,799,055	3,910,519
Other	2,723,505	2,713,669	3,290,217	3,067,725	3,346,435	3,340,864	3,749,182	3,732,554	4,635,404	2,833,721
Total Payments for Year	$23,442,216	$24,870,091	$26,620,217	$27,877,988	$29,858,847	$31,791,697	$33,614,511	$35,305,491	$37,838,398	$38,123,276

NOTE 6 – LEASED PREMISES

The Hampden County Regional Retirement Board leases approximately 3,038 square feet of space for its offices located at 67 Hunt Street, Agawam, MA. The current lease if for a 5-year term ($16.50 per sq. ft.) which will expire August 31, 2026. The landlord is Pine Creek Agawam LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2020:

For the year ending:	Annual Rent
2021	$50,127
2022	50,127
2023	50,127
2024	50,127
2025	50,127
2026 (through August)	33,418
Total future minimum lease payments required	$284,053

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
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