

NATICK

RETIREMENT SYSTEM

AUDIT REPORT

JAN. 1, 2020 - DEC. 31, 2023



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*

WILLIAM T. KEEFE, *Executive Director*

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

September 30, 2026

The Public Employee Retirement Administration Commission has completed an examination of the Natick Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2020 to December 31, 2023. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

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

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

Sincerely,



William T. Keefe
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliations and Stale Outstanding Checks:

The Natick Retirement Board could not provide cash reconciliations for their Citizen Bank accounts for the four dates we requested for our audit testing: December 31, 2023 (end of audit period), April 30, 2026 (the most recent reconciliation as of the start of fieldwork), October 31, 2022 and November 30, 2023. Cash reconciliations were prepared by an outside contractor, before the current Administrator joined the Board, but they were not provided to the Board. The Board was able to provide bank statements and outstanding checks listings. These bank accounts have been inactive since March 2024 except for the accrual of interest.

The Board opened new bank accounts with Needham Bank in 2024 (after the audit period). These cash reconciliations were prepared by the Board staff instead of the Treasurer. Although there is some segregation of duties within the retirement office, pursuant to G.L. c.32 Section 23(2)(a) the city treasurer is the custodian of the Board's funds and therefore should be reconciling the cash accounts. Also, these reconciliations were electronically signed but did not show dates of completion.

We noted stale checks, outstanding for more than six months, included in both the end of the audit period and the most recently available lists of outstanding checks. The Citizens Bank checks have been outstanding since 2022. The Needham Bank accounts had total stale checks and older ACHs of \$78,500 as of April 30, 2026, with the oldest dating back to 2024.

Recommendation: The Treasurer should prepare the monthly cash reconciliations for better internal controls over cash. The reconciliations should be signed and dated for best documentation. Stale checks should be reviewed, voided and reissued as needed on a timely basis. The inactive accounts at Citizens Bank should be reviewed and closed, with any remaining funds transferred to the new Needham Bank accounts.

Board Response:

The Executive Director has prepared the Needham Bank reconciliations since April 2024. The Town has recently hired a new Treasurer. Going forward, the Board will coordinate with the Treasurer to ensure the reconciliations are reviewed, signed, and dated. The Board has retained an outside contractor to complete the outstanding Citizens Bank reconciliations.

The Board is reviewing the stale checks and older ACH items identified in the audit. Staff will research each item, void and reissue payments where appropriate, and document the resolution. The Board will also work with the Treasurer to close the inactive Citizens Bank accounts and transfer the remaining funds to Needham Bank.

2. Retirement Allowance Calculations:

We reviewed 14 superannuation and two accidental disability retirement allowance calculations during the audit period and found the following issues:

- Two superannuation retirement allowances were overstated because the Board included extra weeks in the three-year average salary.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

- One superannuation retirement allowance is overstated because the salary calculation included lump sum vacation and sick time payouts.
- One superannuation retirement calculation did not include the end of school year pays (May-June) from the first year of the three-years.
- Both Accidental Disability retirements tested were underpaid due to not being granted all the COLAs they were eligible for.

Recommendation: The retirement allowances mentioned above should be reviewed, recalculated and submitted to PERAC for approval. COLA payments for the accidental disability retirements need to be reviewed and corrected.

Board Response:

The Board has recalculated the three overstated allowances and one understated allowance and submitted the corrected calculations to PERAC for approval. Following approval, the Board will arrange recovery of the overpayments and payment of the amount owed to the affected retiree.

The Board has also calculated the COLA amounts owed to the two accidental disability retirees. It will issue the retroactive payments and correct their monthly allowances.

3. Fifth Board Member Appointments:

In February 2021, during the audit period, and 2024, after the audit period, the full process of selecting the fifth Board member did not take place. The Board did not post the opening or interview candidates. The Board simply reappointed the incumbent twice.

Recommendation: The Board must follow PERAC Memo #28/2017 for the proper procedures to appoint the fifth board member. Conducting an open, transparent and competitive process to assure system membership that a diligent effort was made to attract candidates and select a fifth member is part of the board's fiduciary duty. If the Board fails to follow the procedures laid out in Memo #28/2017 next year the selection of the fifth member will be invalidated by PERAC. The entire process should be documented in the meeting minutes.

Board Response:

The Board acknowledges PERAC's recommendation and, going forward, intends to follow the procedures set forth in PERAC Memorandum #28/2017 for future fifth member appointments, including publicizing the opening, considering interested candidates, and documenting the selection process in the Board's meeting minutes.

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,			
	2023	2022	2021	2020
Net Assets Available For Benefits:				
Cash	\$7,104,879	\$5,535,077	\$3,744,755	\$1,667,448
Equities	9,983	11,461	10,082	4,232
Pooled Domestic Equity Funds	14,486,657	9,793,541	13,124,279	11,513,616
Pooled International Equity Funds	44,790,980	40,019,977	48,000,877	42,163,740
Pooled International Fixed Income Funds	6,165,545	5,270,191	6,165,976	5,540,709
Pooled Global Fixed Income Funds	34,821,647	29,648,488	34,326,767	31,081,961
Pooled Alternative Investment Funds	36,773,497	33,792,423	33,998,974	19,861,840
Pooled Real Estate Funds	15,801,006	16,853,422	20,363,127	16,004,049
Pooled Domestic Balanced Funds	55,193,757	46,277,649	56,577,758	49,421,588
PRIT Core Fund	13,805,685	13,316,837	10,561,616	9,572,266
Interest Due and Accrued	31,721	17,748	0	0
Accounts Receivable	6,924,929	6,482,034	6,559,593	6,150,324
Accounts Payable	0	(40,512)	(626,246)	(553,060)
Total	<u>\$235,910,285</u>	<u>\$206,978,335</u>	<u>\$232,807,558</u>	<u>\$192,428,713</u>
Fund Balances:				
Annuity Savings Fund	\$44,021,376	\$42,658,282	\$41,366,611	\$39,357,356
Annuity Reserve Fund	11,719,213	11,774,585	11,283,563	11,285,569
Pension Fund	9,425,768	7,996,231	6,618,591	2,991,154
Expense Fund	0	0	0	0
Pension Reserve Fund	170,743,927	144,549,237	173,538,793	138,794,634
Total	<u>\$235,910,285</u>	<u>\$206,978,335</u>	<u>\$232,807,558</u>	<u>\$192,428,713</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2020	\$38,569,026	\$11,028,497	\$4,041,271	\$0	\$114,763,259	\$168,402,053
Receipts	4,087,200	339,301	12,024,917	1,298,454	22,509,332	40,259,204
Interfund Transfers	(2,491,339)	2,487,305	(1,518,009)	0	1,522,043	0
Disbursements	(807,531)	(2,569,534)	(11,557,025)	(1,298,454)	0	(16,232,543)
Ending Balance 2020	39,357,356	11,285,569	2,991,154	0	138,794,634	192,428,713
Receipts	5,024,383	317,485	12,418,149	1,448,529	37,780,138	56,988,685
Interfund Transfers	(2,323,581)	2,323,543	3,036,018	0	(3,035,979)	0
Disbursements	(691,546)	(2,643,034)	(11,826,730)	(1,448,529)	0	(16,609,840)
Ending Balance 2021	41,366,611	11,283,563	6,618,591	0	173,538,793	232,807,558
Receipts	5,502,350	343,055	13,125,797	1,469,630	(29,004,945)	(8,564,114)
Interfund Transfers	(2,953,703)	2,938,313	0	0	15,389	0
Disbursements	(1,256,976)	(2,790,346)	(11,748,157)	(1,469,630)	0	(17,265,109)
Ending Balance 2022	42,658,282	11,774,585	7,996,231	0	144,549,237	206,978,335
Receipts	5,789,568	354,386	14,333,107	1,605,672	26,153,697	48,236,431
Interfund Transfers	(2,976,674)	2,756,178	179,503	0	40,993	(0)
Disbursements	(1,449,800)	(3,165,935)	(13,083,073)	(1,605,672)	0	(19,304,481)
Ending Balance 2023	\$44,021,376	\$11,719,213	\$9,425,768	\$0	\$170,743,927	\$235,910,285

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2023	2022	2021	2020
Annuity Savings Fund:				
Members Deductions	\$4,545,463	\$4,192,744	\$3,915,433	\$3,640,271
Transfers from Other Systems	1,129,199	1,167,480	994,699	320,665
Member Make Up Payments and Re-deposits	58,502	65,578	54,063	68,897
Member Payments from Rollovers	0	1,500	0	0
Investment Income Credited to Member Accounts	56,404	75,048	60,187	57,367
Sub Total	<u>5,789,568</u>	<u>5,502,350</u>	<u>5,024,383</u>	<u>4,087,200</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>354,386</u>	<u>343,055</u>	<u>317,485</u>	<u>339,301</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	504,672	32,269	506,812	542,132
Received from Commonwealth for COLA and Survivor Benefits	0	37,834	79,750	82,176
Pension Fund Appropriation	13,828,435	13,045,693	11,831,588	11,395,609
Settlement of Workers' Compensation Claims	0	10,000	0	5,000
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>14,333,107</u>	<u>13,125,797</u>	<u>12,418,149</u>	<u>12,024,917</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>1,605,672</u>	<u>1,469,630</u>	<u>1,448,529</u>	<u>1,298,454</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	105,206	95,096	265,128	114,129
Pension Reserve Appropriation	0	0	475,670	0
Miscellaneous Income	3,622	34,918	0	0
Excess Investment Income	<u>26,044,869</u>	<u>(29,134,959)</u>	<u>37,039,340</u>	<u>22,395,203</u>
Sub Total	<u>26,153,697</u>	<u>(29,004,945)</u>	<u>37,780,138</u>	<u>22,509,332</u>
Total Receipts, Net	<u>\$48,236,431</u>	<u>(\$8,564,114)</u>	<u>\$56,988,685</u>	<u>\$40,259,204</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2023	2022	2021	2020
Annuity Savings Fund:				
Refunds to Members	\$404,375	\$494,469	\$219,015	\$284,759
Transfers to Other Systems	<u>1,045,426</u>	<u>762,508</u>	<u>472,531</u>	<u>522,771</u>
Sub Total	<u>1,449,800</u>	<u>1,256,976</u>	<u>691,546</u>	<u>807,531</u>
Annuity Reserve Fund:				
Annuities Paid	<u>3,165,935</u>	<u>2,790,346</u>	<u>2,643,034</u>	<u>2,569,534</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	12,611,676	9,832,799	9,416,781	9,199,526
Survivorship Payments	0	745,281	720,317	674,520
Accidental Disability Payments	0	748,652	705,128	728,990
Accidental Death Payments	0	355,000	350,004	346,494
Section 101 Benefits	0	66,425	64,565	61,159
3 (8) (c) Reimbursements to Other Systems	<u>471,397</u>	<u>0</u>	<u>569,935</u>	<u>546,337</u>
Sub Total	<u>13,083,073</u>	<u>11,748,157</u>	<u>11,826,730</u>	<u>11,557,025</u>
Expense Fund:				
Salaries	350,374	301,910	200,122	192,801
Legal Expenses	17,856	7,554	6,461	16,258
Travel Expenses	0	732	0	0
Administrative Expenses	44,308	14,318	12,386	16,998
Actuarial Services	10,000	26,500	5,000	5,000
Accounting Services	0	7,735	15,409	7,013
Education and Training	1,245	2,410	1,275	1,548
Furniture and Equipment	31,231	2,244	4,270	15,648
Management Fees	977,923	1,007,033	1,090,398	946,998
Custodial Fees	43,115	33,141	45,064	30,799
Consultant Fees	34,778	25,324	33,028	32,066
Rent Expenses	49,757	0	0	0
Service Contracts	36,757	32,521	26,984	25,699
Fiduciary Insurance	<u>8,328</u>	<u>8,207</u>	<u>8,132</u>	<u>7,628</u>
Sub Total	<u>1,605,672</u>	<u>1,469,630</u>	<u>1,448,529</u>	<u>1,298,454</u>
Total Disbursements	<u>\$19,304,481</u>	<u>\$17,265,109</u>	<u>\$16,609,840</u>	<u>\$16,232,543</u>

Pensions Paid categories are included in the Regular Pension Payments total in 2023.

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2023	2022	2021	2020
Investment Income Received From:				
Cash	\$408,413	\$86,779	\$434	\$17,811
Equities	594	396	330	495
Pooled or Mutual Funds	6,175,223	4,868,020	17,479,178	5,840,769
Commission Recapture	<u>0</u>	<u>0</u>	<u>529</u>	<u>0</u>
Total Investment Income	<u>6,584,231</u>	<u>4,955,195</u>	<u>17,480,472</u>	<u>5,859,075</u>
Plus:				
Realized Gains	6,543,541	2,383,136	6,330,757	2,833,365
Unrealized Gains	42,482,531	29,910,500	40,468,621	50,072,523
Interest Due and Accrued - Current Year	<u>31,721</u>	<u>17,748</u>	<u>0</u>	<u>0</u>
Sub Total	<u>49,057,793</u>	<u>32,311,383</u>	<u>46,799,378</u>	<u>52,905,889</u>
Less:				
Realized Loss	(236,053)	(240,751)	(68,753)	(577,214)
Unrealized Loss	(27,326,892)	(64,273,054)	(25,345,555)	(34,097,425)
Interest Due and Accrued - Prior Year	<u>(17,748)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(27,580,692)</u>	<u>(64,513,805)</u>	<u>(25,414,308)</u>	<u>(34,674,638)</u>
Net Investment Income	<u>28,061,332</u>	<u>(27,247,226)</u>	<u>38,865,541</u>	<u>24,090,325</u>
Income Required:				
Annuity Savings Fund	56,404	75,048	60,187	57,367
Annuity Reserve Fund	354,386	343,055	317,485	339,301
Expense Fund	<u>1,605,672</u>	<u>1,469,630</u>	<u>1,448,529</u>	<u>1,298,454</u>
Total Income Required	<u>2,016,462</u>	<u>1,887,733</u>	<u>1,826,201</u>	<u>1,695,122</u>
Net Investment Income	<u>28,061,332</u>	<u>(27,247,226)</u>	<u>38,865,541</u>	<u>24,090,325</u>
Less: Total Income Required	<u>2,016,462</u>	<u>1,887,733</u>	<u>1,826,201</u>	<u>1,695,122</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$26,044,869</u>	<u>(\$29,134,959)</u>	<u>\$37,039,340</u>	<u>\$22,395,203</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2023		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$7,104,879	3.1%
Equities	9,983	0.0%
Pooled Domestic Equity Funds	14,486,657	6.3%
Pooled International Equity Funds	44,790,980	19.6%
Pooled International Fixed Income Funds	6,165,545	2.7%
Pooled Global Fixed Income Funds	34,821,647	15.2%
Pooled Alternative Investment Funds	36,773,497	16.1%
Pooled Real Estate Funds	15,801,006	6.9%
Pooled Domestic Balanced Funds	55,193,757	24.1%
PRIT Core Fund	<u>13,805,685</u>	<u>6.0%</u>
Grand Total	<u>\$228,953,635</u>	<u>100.0%</u>

For the year ending December 31, 2023, the rate of return for the investments of the Natick Retirement System was 16.92%. For the ten-year period ending December 31, 2023, the rate of return for the investments of the Natick Retirement System averaged 8.50%. For the 39-year period ending December 31, 2023, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Natick Retirement System was 8.34%.

The composite rate of return for all retirement systems for the year ending December 31, 2023 was 11.64%. For the ten-year period ending December 31, 2023, the composite rate of return for the investments of all retirement systems averaged 7.81%. For the 39-year period ending December 31, 2023, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.05%

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

NOTES TO FINANCIAL STATEMENTS (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 73.

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.

NOTES TO FINANCIAL STATEMENTS (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 \$1,092.60 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 \$1,092.60 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.

NOTES TO FINANCIAL STATEMENTS (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.

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-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: Michelle Laramee

Appointed Member: Marco Gargurevich Term Expires: 6/30/2027

Elected Member: Michael J. Melchiorri, Chairperson Term Expires: 12/31/2026

Elected Member: Nicholas Mabardy Term Expires: 7/1/2029

Appointed Member: Michael Reardon Term Expires: 2/1/2027

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 Natick Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at <https://www.mass.gov/natick-retirement-board-regulations>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - MEMBERSHIP EXHIBIT

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Retirement in Past Years										
Superannuation	23	17	22	16	27	13	20	19	21	23
Ordinary Disability	0	0	0	0	1	0	0	0	0	0
Accidental Disability	1	0	0	0	1	1	1	0	1	1
Total Retirements	24	17	22	16	29	14	21	19	22	24
 Total Retirees, Beneficiaries and Survivors	406	407	419	415	435	434	442	439	445	458
 Total Active Members	634	663	688	679	670	711	693	737	691	820
Pension Payments										
Superannuation	\$6,745,748	\$7,042,620	\$7,335,544	\$7,805,136	\$8,322,898	\$8,903,268	\$9,199,526	\$9,416,781	\$9,832,799	\$12,611,676
Survivor/Beneficiary Payments	570,786	607,635	625,613	631,196	644,312	674,399	674,520	720,317	745,281	0
Ordinary Disability	27,717	28,077	28,437	28,812	32,719	12,312	0	0	0	0
Accidental Disability	750,950	740,712	669,540	653,373	778,833	740,891	728,990	705,128	748,652	0
Other	<u>731,175</u>	<u>785,114</u>	<u>1,332,581</u>	<u>965,846</u>	<u>899,537</u>	<u>966,010</u>	<u>953,990</u>	<u>984,504</u>	<u>421,425</u>	<u>471,397</u>
Total Payments for Year	<u>\$8,826,376</u>	<u>\$9,204,158</u>	<u>\$9,991,715</u>	<u>\$10,084,363</u>	<u>\$10,678,300</u>	<u>\$11,296,879</u>	<u>\$11,557,025</u>	<u>\$11,826,730</u>	<u>\$11,748,157</u>	<u>\$13,083,073</u>

Pension Payments categories are included in the Superannuation Pension Payments total in 2023.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 – LEASED PREMISES

The Natick Retirement Board leases approximately 1,765 square feet of space for its offices located at 117 West Central Street in Natick. They signed a five-year lease term starting on February 1, 2023 and ending on January 31, 2028, with an option for an additional five years. The landlord is DeLuca Realty Trust, J.E.D. Realty Trust and T.A.A.J. Nominee Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2023:

<u>For the year ending:</u>	<u>Annual Rent</u>
2024	\$42,360
2025	42,360
2026	42,360
2027	<u>42,360</u>

Total future minimum lease payments required	<u>\$169,440</u>
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Note: The rent is paid one month in advance. In addition to lease payments, the board pays an estimated \$501 per month for their share of real estate taxes and insurance.

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COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

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