Natick

Contributory Retirement System Audit Report

Jan. 1, 2016 - Dec. 31, 2019

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

Letter from the Executive Director 1

Explanation of Finding and Recommendation 3

Board's Annual Statements (as submitted):

- Statement of Ledger Assets and Liabilities 4
- Statement of Changes in Fund Balances 5
- Statement of Receipts 6
- Statement of Disbursements 7
- Investment Income 8

Supplementary Information:

- Schedule of Allocation of Investments Owned 9
- Summary of Plan Provisions 10
- Significant Accounting Policies 17
- Administration of the System 19
- Board Regulations 20
- Actuarial Valuation and Assumptions 20
- Membership Exhibit 22

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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

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

November 2, 2023

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

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash and investment balances are accurately stated, 3) that procurements of investment related contracts complied with the provisions of Section 23B of Chapter 32 and that management fees paid were in accordance with the executed contracts, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, 7) that required member documentation is maintained, 8) that appropriations certified by PERAC for the fiscal years covered by the audit have been paid to the retirement system, and 9) that refunds issued by the system were correctly calculated.

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

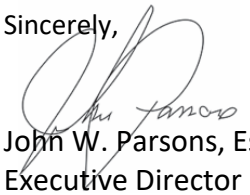
In our opinion, for those areas tested during the audit period, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception noted in the finding presented in this report.

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

Subsequent to our audit period, the Natick Retirement Board has experienced staff turnover and has been several months behind in submitting their required accounting information in accordance with 840 CMR 4.03. PERAC has since suspended consideration of any investment procurements by the Natick Retirement Board until this delinquency in accounting is corrected. As of the date of this report, the suspension remains in effect.

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

Sincerely,



John W. Parsons, Esq.
Executive Director

EXPLANATION OF FINDING AND RECOMMENDATION

New Retirement Calculations:

We tested the retirement allowance of sixteen new retirees during the audit period and found the following issues:

- One retiree had a three-year average that was approximately $1,100 greater than we calculated. Two items caused the majority of this difference. First there was a $1,500 bonus that was included due to it being labeled as a stipend. Bonuses are not considered regular compensation. Second, there was an extra week's pay of approximately $1,900 included.

- One retiree had a three-year average salary that was approximately $2,500 greater than what we calculated. The majority of this difference was due to the board including a payment of $6,970 without knowing the reason for the payment. Attempts to get an explanation during the audit were unsuccessful.

Recommendation: The board should recalculate the allowance for these two retirees by removing the cited payments, unless new information is obtained that leads to them belonging in the three-year average salary.

Board Response:

- The $1,500 in question was NOT a bonus payment, it was actually a stipend paid to the Golf Course employee because the Golf Course was open longer than anticipated. At the time it was not open year-round. As to the additional week, please note that the $1,500 stipend was paid the same week as a regular compensation, June 30, 2015, so if you count the weeks used for the three year average only 78 weeks of payment were included.

- The $6,970 payment mentioned was a retroactive payment of a contract settlement. A portion of that settlement was payment due during the "three-year" average period used for the retiree's calculation.

PERAC Response:

The Board response is not supported by the documentation reviewed during the audit. The retiree that received the $1,500 bonus payment on June 30, 2015 also received similar amounts in July 2014 ($1,500) and August 2013 ($2,000). These earlier payments were coded as a stipend and retirement deductions were not taken from this pay. PERAC requests that the Board reexamine this retiree's calculation as it appears to include more than 78 pay periods (156 weeks). The records reviewed indicate that he was paid for an additional week after his retirement date.

Evidence that the payment of $6,970 was a retroactive payment of a contract settlement was not presented to PERAC during the audit, despite our requests. We will examine the information when we return for our follow up review.

FINAL DETERMINATION:

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

ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2019	2018	2017	2016
Net Assets Available For Benefits:				
Cash	$3,690,290	$1,824,004	$1,377,870	$9,819,716
Equities	1,365	1,945	2,417	3,218
Pooled Domestic Equity Funds	10,396,276	7,388,729	8,566,304	12,817,067
Pooled International Equity Funds	36,954,715	24,679,053	29,336,287	20,031,341
Pooled Global Equity Funds	0	11,568,285	12,181,195	10,999,030
Pooled International Fixed Income Funds	4,923,516	6,905,219	6,585,936	6,041,361
Pooled Global Fixed Income Funds	26,977,556	19,151,803	18,025,001	17,196,748
Pooled Alternative Investment Funds	13,598,015	11,256,047	7,919,754	5,795,109
Pooled Real Estate Funds	15,905,682	18,750,535	17,905,821	13,105,364
Pooled Domestic Balanced Funds	43,641,473	29,977,900	34,946,580	29,976,020
Hedge Funds	5,799,276	5,384,910	5,470,029	5,057,343
PRIT Core Fund	1,222,575	890,233	1,191,364	749,364
Accounts Receivable	5,843,819	5,349,495	410,564	4,628,224
Accounts Payable	(552,504)	(547,286)	(590,981)	(8,498,101)
Total	$168,402,053	$142,580,872	$143,328,142	$127,721,803
Fund Balances:				
Annuity Savings Fund	$38,569,026	$37,243,785	$37,488,111	$35,503,504
Annuity Reserve Fund	11,028,497	11,371,038	9,950,276	9,816,678
Pension Fund	4,041,271	4,147,558	(196,222)	4,780,108
Expense Fund	0	0	0	0
Pension Reserve Fund	114,763,259	89,818,491	96,085,977	77,621,514
Total	$168,402,053	$142,580,872	$143,328,142	$127,721,803

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2015	$34,491,534	$9,161,707	$5,074,331	$0	$67,851,934	$116,579,507
Receipts *	4,026,012	283,238	9,697,491	1,027,092	9,775,097	24,808,930
Interfund Transfers	(2,252,786)	2,258,303	0	0	(5,517)	0
Disbursements *	(761,256)	(1,886,570)	(9,991,715)	(1,027,092)	0	(13,666,634)
Ending Balance 2016 *	35,503,504	9,816,678	4,780,108	0	77,621,514	127,721,803
Receipts	4,549,564	297,167	5,108,034	1,166,971	18,464,463	29,586,200
Interfund Transfers	(1,856,666)	1,856,666	0	0	0	0
Disbursements	(708,291)	(2,020,235)	(10,084,363)	(1,166,971)	0	(13,979,860)
Ending Balance 2017	37,488,111	9,950,276	(196,222)	0	96,085,977	143,328,142
Receipts	3,947,919	310,385	15,022,079	982,756	(6,267,485)	13,995,653
Interfund Transfers	(3,255,865)	3,255,865	0	0	0	0
Disbursements	(936,380)	(2,145,488)	(10,678,300)	(982,756)	0	(14,742,923)
Ending Balance 2018	37,243,785	11,371,038	4,147,558	0	89,818,492	142,580,873
Receipts	4,364,630	346,052	11,190,593	1,062,788	24,944,767	41,908,829
Interfund Transfers	(1,696,675)	1,696,674	0	0	1	(0)
Disbursements	(1,342,715)	(2,385,266)	(11,296,879)	(1,062,788)	0	(16,087,648)
Ending Balance 2019	$38,569,026	$11,028,497	$4,041,271	$0	$114,763,260	$168,402,053

* In one of the four years the beginning fund balance was not equal to the prior year's ending fund balances. The 2016 ending balance did not equal the 2017 beginning balance. The pension reserve fund was understated and has been modified accordingly.

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Members Deductions	$3,768,908	$3,652,979	$3,544,377	$3,370,353
Transfers from Other Systems	493,164	208,728	926,690	595,788
Member Make Up Payments and Re-deposits	40,200	35,231	31,755	28,149
Investment Income Credited to Member Accounts	62,358	50,982	46,742	31,722
Sub Total	4,364,630	3,947,919	4,549,564	4,026,012
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	346,052	310,385	297,167	283,238
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	543,131	450,637	372,594	894,093
Received from Commonwealth for COLA and Survivor Benefits	95,971	165,982	58,615	190,239
Pension Fund Appropriation	10,551,491	14,400,460	4,676,825	8,613,159
Settlement of Workers' Compensation Claims	0	5,000	0	0
Recovery of 91A Overearnings	0	0	0	0
Sub Total	11,190,593	15,022,079	5,108,034	9,697,491
Expense Fund:				
Investment Income Credited to the Expense Fund	1,062,788	982,756	1,166,971	1,027,092
Pension Reserve Fund:				
Federal Grant Reimbursement	140,409	21,029	108,370	168,464
Interest Not Refunded	0	(1,221)	0	0
Miscellaneous Income	0	2,172	54	0
Excess Investment Income	24,804,358	(6,289,465)	18,356,040	9,606,633
Sub Total	24,944,767	(6,267,485)	18,464,463	9,775,097
Total Receipts, Net	$41,908,829	$13,995,653	$29,586,200	$24,808,930

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Refunds to Members	$459,582	$387,402	$226,680	$244,163
Transfers to Other Systems	883,133	548,978	481,611	517,094
Sub Total	1,342,715	936,380	708,291	761,256
Annuity Reserve Fund:				
Annuities Paid	2,385,266	2,145,488	2,020,235	1,886,570
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	8,903,268	8,322,898	7,805,136	7,335,544
Survivorship Payments	674,399	644,312	631,196	625,613
Ordinary Disability Payments	12,312	32,719	28,812	28,437
Accidental Disability Payments	740,891	778,833	653,373	669,540
Accidental Death Payments	354,732	289,023	311,212	293,160
Section 101 Benefits	58,484	69,293	63,660	64,295
3 (8) (c) Reimbursements to Other Systems	552,794	541,221	590,975	975,126
Sub Total	11,296,879	10,678,300	10,084,363	9,991,715
Expense Fund:				
Board Member Stipend	0	1,500	750	1,500
Salaries	155,612	185,834	182,770	183,765
Legal Expenses	16,176	20,631	14,709	2,986
Medical Expenses	108	0	0	0
Travel Expenses	12,889	3,040	2,418	3,171
Administrative Expenses	48,001	4,988	12,398	13,201
Professional Services	24,475	0	0	400
Actuarial Services	24,000	0	22,000	4,500
Accounting Services	9,094	8,678	11,380	0
Education and Training	7,245	2,880	2,350	850
Furniture and Equipment	8,110	5,736	7,884	0
Management Fees	416,700	660,245	828,605	721,006
Custodial Fees	29,190	28,553	26,176	40,088
Consultant Fees	303,721	30,225	26,250	27,500
Service Contracts	0	23,310	22,298	21,241
Fiduciary Insurance	7,467	7,137	6,982	6,885
Sub Total	1,062,788	982,756	1,166,971	1,027,092
Total Disbursements	$16,087,648	$14,742,923	$13,979,860	$13,666,634

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Investment Income Received From:				
Cash	$66,077	$45,188	$21,878	$13,057
Equities	0	19	53	4
Pooled or Mutual Funds	11312618.51	10527009.87	5,453,152	3,724,480
Total Investment Income	11,378,696	10,572,217	5,475,083	3,737,541
Plus:				
Realized Gains	2,056,960	1,574,225	1,183,565	37,623
Unrealized Gains	29,412,283	14,960,828	17,135,996	11,728,536
Sub Total	31,469,243	16,535,053	18,319,561	11,766,160
Less:				
Realized Loss	(109,730)	(123,442)	(332,823)	(50,957)
Unrealized Loss	(16,462,653)	(31,929,170)	(3,594,901)	(4,504,058)
Sub Total	(16,572,382)	(32,052,613)	(3,927,724)	(4,555,015)
Net Investment Income	26,275,556	(4,945,343)	19,866,920	10,948,685
Income Required:				
Annuity Savings Fund	62,358	50,982	46,742	31,722
Annuity Reserve Fund	346,052	310,385	297,167	283,238
Expense Fund	1,062,788	982,756	1,166,971	1,027,092
Total Income Required	1,471,198	1,344,123	1,510,880	1,342,052
Net Investment Income	26,275,556	(4,945,343)	19,866,920	10,948,685
Less: Total Income Required	1,471,198	1,344,123	1,510,880	1,342,052
Excess Income (Loss) To The Pension Reserve Fund	$24,804,358	($6,289,465)	$18,356,040	$9,606,633

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2019	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$3,690,290	2.3%
Equities	1,365	0.0%
Pooled Domestic Equity Funds	10,396,276	6.4%
Pooled International Equity Funds	36,954,715	22.7%
Pooled International Fixed Income Funds	4,923,516	3.0%
Pooled Global Fixed Income Funds	26,977,556	16.5%
Pooled Alternative Investment Funds	13,598,015	8.3%
Pooled Real Estate Funds	15,905,682	9.8%
Pooled Domestic Balanced Funds	43,641,473	26.8%
Hedge Funds	5,799,276	3.6%
PRIT Core Fund	1,222,575	0.7%
Grand Total	$163,110,738	100.0%

For the year ending December 31, 2019, the rate of return for the investments of the Natick Retirement System was 18.95%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Natick Retirement System averaged 8.02%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Natick Retirement System was 8.24%.

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

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.

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

AMOUNT OF BENEFIT

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

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

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

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

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

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

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

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All

participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 72.

SUPPLEMENTARY INFORMATION (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $952.32 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $952.32 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $300,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (OPTION D)

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

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

SUPPLEMENTARY INFORMATION (Continued)

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

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:	Eliot Lurier	Term Expires: 6/30/2024
Elected Member:	Michael J. Melchiorri, Chairperson	Term Expires: 12/31/2023
Elected Member:	Nicholas Mabardy	Term Expires: 6/30/2026
Appointed Member:	Michael Reardon	Term Expires: 2/01/2024

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

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$114,164,666
The actuarial liability for vested terminated members was	2,947,204
The actuarial liability for non-vested terminated members was	1,405,867
The actuarial liability for retired members was	136,218,341
The total actuarial liability was	$254,736,078
System assets as of that date were (actuarial value)	179,380,498
The unfunded actuarial liability was	$75,355,580
The ratio of system's assets to total actuarial liability was	70.4%
As of that date the total covered employee payroll was	$38,030,778

The normal cost for employees on that date was	10.3% of payroll
The normal cost for the employer including administrative expenses was	6.1% of payroll

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

Investment Return:	7.00% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2021

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll * (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2021	$179,380,498	$254,736,078	$75,355,580	70.4%	$38,030,778	198.1%
1/1/2019	$151,300,155	$236,737,698	$85,437,543	63.9%	$37,326,353	228.9%
1/1/2017	$133,351,938	$214,250,037	$80,898,099	62.2%	$37,421,956	216.2%
1/1/2015	$119,777,862	$197,036,372	$77,258,510	60.8%	$34,773,489	222.2%
1/1/2013	$103,200,251	$168,828,777	$65,628,526	61.1%	$32,180,970	203.9%

* For valuations prior to January 1, 2019, the Covered Payroll is equal to the projected payroll. For valuations after January 1, 2017, the Covered Payroll is equal to the total payroll.

MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Retirement in Past Years										
Superannuation	8	0	0	15	23	17	22	16	27	13
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	0	2	0	0	1	0	0	0	1	1
Total Retirements	8	2	0	15	24	17	22	16	29	14
Total Retirees, Beneficiaries and Survivors	392	372	382	402	406	407	419	415	435	434
Total Active Members	585	570	575	588	634	663	688	679	670	711
Pension Payments										
Superannuation	$5,567,312	$5,576,550	$6,040,631	$6,286,196	$6,745,748	$7,042,620	$7,335,544	$7,805,136	$8,322,898	$8,903,268
Survivor/Beneficiary Payments	396,130	447,208	527,975	574,452	570,786	607,635	625,613	631,196	644,312	674,399
Ordinary Disability	26,397	37,697	30,051	27,357	27,717	28,077	28,437	28,812	32,719	12,312
Accidental Disability	960,096	959,918	939,887	876,630	750,950	740,712	669,540	653,373	778,833	740,891
Other	571,748	564,210	561,964	651,591	731,175	785,114	1,332,581	965,846	899,537	966,010
Total Payments for Year	$7,521,683	$7,585,583	$8,100,508	$8,416,226	$8,826,376	$9,204,158	$9,991,715	$10,084,363	$10,678,300	$11,296,879

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

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair* WILLIAM T. KEEFE, *Executive Director*

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

December 10, 2024

Michael J. Melchiorri, Chairperson
Natick Retirement System
117 West Central Street, Suite 210
Natick, MA 01760

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

Dear Chairperson Melchiorri:

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

The Audit Report cited a finding that two out of 16 sampled retirement allowances had issues and needed to be recalculated.

Follow-up Result: These retirement allowances have not been recalculated. This issue is not resolved.

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

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

Thank you for your continued cooperation in this matter.

Sincerely,

William T. Keefe
Executive Director

WTK/cms
cc: Natick Retirement System Members

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC