

NEWBURYPORT CONTRIBUTORY

RETIREMENT SYSTEM

AUDIT REPORT

JANUARY 1, 2015 - DECEMBER 31, 2018



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

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

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | RICHARD MacKINNON, Jr. | JENNIFER F. SULLIVAN

August 10, 2022

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Newburyport Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2015 to December 31, 2018. 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 balances are accurately stated, 3) that investment balances are accurately stated, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Newburyport 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. 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.

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

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

Sincerely,



John W. Parsons, Esq.
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Retirement Allowance Calculations:

We tested new retirement allowance calculations during the audit period and found approximately one third had issues. The most common error was superannuation retirees who had their benefit based on an average three-year salary that had more than three years' worth of longevity payments. The partial longevity payment made at the time of retirement was included along with the three full annual longevity payments that occurred within the period used for the high three-year salary calculation. Since §5(2)(a) requires an average annual rate over three years, it follows that the three-year average should have the equivalent of exactly three years' worth of longevity payments.

One of the retirement allowance calculations mentioned above was a disability retirement allowance calculation that included more than one year's worth of longevity. The same reasoning that applies to the superannuation three-year average also applies to the one-year disability salary described in §7(2)(a)(ii).

Recommendation: When a retiree receives a pro-rated share of their annual longevity payment upon retirement, the Board must include only a portion of the earliest longevity payment received in the three-year period so that not more than three years' worth are counted in the average salary. The same procedure should be followed for any other stipends that are received during the three years. In the case of benefits with a one-year average, not more than twelve months' worth should be included.

The Board needs to review the allowances identified in the audit and make any necessary corrections.

Board Response:

The Newburyport Retirement System sends all superannuation and disability retirement calculations to PERAC for review and final approval. PERAC's final approval was received for these calculations.

PERAC Response:

While PERAC reviews the calculations, PERAC is constrained by reviewing the information that is submitted by the Board. If the Board submits incomplete information, that is the information that PERAC uses when reviewing the calculation. The audit process is designed to ensure that the board is using the correct information and maintaining accurate records while the actuarial review is ensuring that the calculation is performed correctly using the information provided by the board.

2. Executive Session Meetings:

Minutes of four executive session meetings mentioned in open session meeting minutes were not provided.

Recommendation: Minutes of all executive session meetings must be maintained in accordance with the Open Meeting Law.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

Board Response:

The Board's process for approving Executive Session minutes was to approve them in Executive Session. This would have allowed discussion about the minutes, which rarely if ever happened. The Board acknowledges that there should be minutes for the approval meetings. However, the Board is uncertain if the minutes exist because the minute taker is no longer an employee. The Board will ensure that all executive session minutes are recorded and provided at the appropriate times.

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,			
	2018	2017	2016	2015
Net Assets Available For Benefits:				
Cash	\$662,613	\$404,533	\$3,309,733	\$2,334,508
PRIT Cash Fund	100,921	1,601,808	100,302	100,112
PRIT Core Fund	79,813,365	80,277,338	67,569,341	64,555,943
Accounts Receivable	96,575	182,156	71,432	228,510
Accounts Payable	(2,126)	(5,502)	(9,107)	(6,830)
Total	<u>\$80,671,347</u>	<u>\$82,460,333</u>	<u>\$71,041,702</u>	<u>\$67,212,242</u>
Fund Balances:				
Annuity Savings Fund	\$19,507,647	\$18,299,354	\$17,056,183	\$17,388,338
Annuity Reserve Fund	4,862,912	4,930,410	5,210,783	4,589,781
Pension Fund	(1,006,167)	(376,273)	452,739	1,224,346
Military Service Fund	21,821	26,906	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	57,285,134	59,579,935	48,321,997	44,009,778
Total	<u>\$80,671,347</u>	<u>\$82,460,333</u>	<u>\$71,041,702</u>	<u>\$67,212,242</u>

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2015	\$16,156,192	\$4,843,765	\$1,777,498	\$14	\$0	\$43,947,973	\$66,725,444
Receipts	2,170,238	133,217	4,498,237	0	538,081	61,790	7,401,564
Interfund Transfers	(499,027)	499,027	0	(14)	0	14	0
Disbursements	(439,065)	(886,230)	(5,051,389)	<u>0</u>	(538,081)	<u>0</u>	(6,914,765)
Ending Balance 2015	17,388,338	4,589,781	1,224,346	0	0	44,009,778	67,212,242
Receipts	1,954,956	142,530	4,691,068	0	582,882	4,312,219	11,683,655
Interfund Transfers	(1,459,277)	1,459,277	0	(0)	0	0	0
Disbursements	(827,834)	(980,804)	(5,462,676)	<u>0</u>	(582,882)	<u>0</u>	(7,854,196)
Ending Balance 2016	17,056,183	5,210,783	452,739	(0)	0	48,321,997	71,041,702
Receipts	1,959,508	147,496	4,916,454	26,906	640,878	11,257,938	18,949,180
Interfund Transfers	(617,428)	617,428	0	0	0	0	0
Disbursements	(98,909)	(1,045,296)	(5,745,466)	<u>0</u>	(640,878)	<u>0</u>	(7,530,549)
Ending Balance 2017	18,299,354	4,930,410	(376,273)	26,906	0	59,579,935	82,460,333
Receipts	2,321,313	140,661	5,155,772	27	691,514	(2,291,275)	6,018,012
Interfund Transfers	(876,567)	880,094	5,112	(5,112)	0	(3,527)	0
Disbursements	(236,453)	(1,088,252)	(5,790,778)	<u>0</u>	(691,514)	<u>0</u>	(7,806,997)
Ending Balance 2018	\$19,507,647	\$4,862,912	(\$1,006,167)	\$21,821	\$0	\$57,285,134	\$80,671,347

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Members Deductions	\$1,885,545	\$1,794,876	\$1,669,954	\$1,661,946
Transfers from Other Systems	309,718	94,813	234,513	447,587
Member Make Up Payments and Re-deposits	55,267	44,921	7,281	37,331
Member Payments from Rollovers	41,013	212	18,238	6,742
Investment Income Credited to Member Accounts	29,770	24,687	24,971	16,632
Sub Total	<u>2,321,313</u>	<u>1,959,508</u>	<u>1,954,956</u>	<u>2,170,238</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	140,661	147,496	142,530	133,217
Pension Fund:				
3 (B) (c) Reimbursements from Other Systems	215,468	206,279	200,625	172,338
Received from Commonwealth for COLA and Survivor Benefits	53,629	56,198	58,085	64,017
Pension Fund Appropriation	4,886,675	4,653,976	4,432,358	4,261,883
Recovery of 91A Overearnings	0	0	0	0
Sub Total	<u>5,155,772</u>	<u>4,916,454</u>	<u>4,691,068</u>	<u>4,498,237</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	26,906	0	0
Investment Income Credited to the Military Service Fund	27	0	0	0
Sub Total	<u>27</u>	<u>26,906</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	691,514	640,878	582,882	538,081
Pension Reserve Fund:				
Interest Not Refunded	5,833	1,198	4,054	138
Miscellaneous Income	629	0	0	0
Excess Investment Income	(2,297,736)	11,256,741	4,308,165	61,652
Sub Total	<u>(2,291,275)</u>	<u>11,257,938</u>	<u>4,312,219</u>	<u>61,790</u>
Total Receipts, Net	\$6,018,012	\$18,949,180	\$11,683,655	\$7,401,564

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2018	2017	2016	2015
Annuity Savings Fund:				
Refunds to Members	\$138,430	\$76,157	\$296,883	\$28,489
Transfers to Other Systems	98,024	22,752	530,951	410,577
Sub Total	<u>236,453</u>	<u>98,909</u>	<u>827,834</u>	<u>439,065</u>
Annuity Reserve Fund:				
Annuities Paid	<u>1,088,252</u>	<u>1,045,296</u>	<u>980,804</u>	<u>886,230</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	4,234,631	4,137,729	4,046,730	3,836,196
Survivorship Payments	198,663	185,616	155,973	155,437
Ordinary Disability Payments	32,193	30,919	29,209	29,352
Accidental Disability Payments	887,194	885,467	842,537	756,413
Accidental Death Payments	179,784	175,992	139,162	55,832
Section 101 Benefits	18,502	17,779	17,440	18,366
3 (8) (c) Reimbursements to Other Systems	186,182	255,764	173,539	135,776
State Reimbursable COLA's Paid	<u>53,629</u>	<u>56,198</u>	<u>58,085</u>	<u>64,017</u>
Sub Total	<u>5,790,778</u>	<u>5,745,466</u>	<u>5,462,676</u>	<u>5,051,389</u>
Expense Fund:				
Board Member Stipend	22,500	22,500	22,500	21,000
Salaries	154,956	144,970	125,727	124,688
Benefits	29,148	0	0	0
Legal Expenses	1,034	376	576	2,580
Travel Expenses	3,878	3,678	2,737	1,716
Administrative Expenses	7,181	39,479	28,651	14,207
Education and Training	1,920	1,400	1,440	1,080
Furniture and Equipment	352	912	6,698	902
Management Fees	432,945	387,413	351,655	337,529
Rent Expenses	9,450	12,600	16,800	9,700
Service Contracts	24,110	23,596	22,199	20,895
Fiduciary Insurance	<u>4,041</u>	<u>3,954</u>	<u>3,899</u>	<u>3,785</u>
Sub Total	<u>691,514</u>	<u>640,878</u>	<u>582,882</u>	<u>538,081</u>
Total Disbursements	<u>\$7,806,997</u>	<u>\$7,530,549</u>	<u>\$7,854,196</u>	<u>\$6,914,765</u>

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2018	2017	2016	2015
Investment Income Received From:				
Cash	\$13,747	\$12,508	\$12,928	\$6,962
Pooled or Mutual Funds	<u>2,254,407</u>	<u>2,047,904</u>	<u>1,887,432</u>	<u>1,719,846</u>
Total Investment Income	<u>2,268,154</u>	<u>2,060,413</u>	<u>1,900,359</u>	<u>1,726,807</u>
Plus:				
Realized Gains	3,774,909	3,369,840	1,859,774	2,398,135
Unrealized Gains	<u>2,958,196</u>	<u>6,639,549</u>	<u>5,636,840</u>	<u>3,410,352</u>
Sub Total	<u>6,733,105</u>	<u>10,009,389</u>	<u>7,496,615</u>	<u>5,808,488</u>
Less:				
Realized Loss	0	0	(36,675)	(31,447)
Unrealized Loss	<u>(10,437,023)</u>	<u>0</u>	<u>(4,301,753)</u>	<u>(6,754,266)</u>
Sub Total	<u>(10,437,023)</u>	<u>0</u>	<u>(4,338,427)</u>	<u>(6,785,712)</u>
Net Investment Income	<u>(1,435,764)</u>	<u>12,069,801</u>	<u>5,058,547</u>	<u>749,582</u>
Income Required:				
Annuity Savings Fund	29,770	24,687	24,971	16,632
Annuity Reserve Fund	140,661	147,496	142,530	133,217
Military Service Fund	27	0	0	0
Expense Fund	<u>691,514</u>	<u>640,878</u>	<u>582,882</u>	<u>538,081</u>
Total Income Required	<u>861,972</u>	<u>813,060</u>	<u>750,382</u>	<u>687,930</u>
Net Investment Income	<u>(1,435,764)</u>	<u>12,069,801</u>	<u>5,058,547</u>	<u>749,582</u>
Less: Total Income Required	<u>861,972</u>	<u>813,060</u>	<u>750,382</u>	<u>687,930</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$2,297,736)</u>	<u>\$11,256,741</u>	<u>\$4,308,165</u>	<u>\$61,652</u>

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2018		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$662,613	0.8%
PRIT Cash Fund	100,921	0.1%
PRIT Core Fund	<u>79,813,365</u>	<u>99.1%</u>
Grand Total	<u>\$80,576,898</u>	<u>100.0%</u>

For the year ending December 31, 2018, the rate of return for the investments of the Newburyport Retirement System was -1.82%. For the five-year period ending December 31, 2018, the rate of return for the investments of the Newburyport Retirement System averaged 6.27%. For the 34-year period ending December 31, 2018, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Newburyport Retirement System was 8.08%.

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

SUPPLEMENTARY INFORMATION (Continued)

SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

SUPPLEMENTARY INFORMATION (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

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

SUPPLEMENTARY INFORMATION (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$924.60 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 \$924.60 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.

SUPPLEMENTARY INFORMATION (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (OPTION D)

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

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

COST OF LIVING

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

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

SUPPLEMENTARY INFORMATION (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

SUPPLEMENTARY INFORMATION (Continued)

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board 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.

SUPPLEMENTARY INFORMATION (Continued)

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

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: Ethan R. Manning

Appointed Member: John Moak Serves until a successor is appointed

Elected Member: Joseph Spaulding, Chairman Term Expires: 12/07/2023

Elected Member: Jeffrey R. Cutter Term Expires: 02/20/2023

Appointed Member: Larry Giunta Term Expires: 06/20/2024

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

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2020.

The actuarial liability for active members was	\$63,412,192
The actuarial liability for vested terminated members was	879,734
The actuarial liability for non-vested terminated members was	740,392
The actuarial liability for retired members was	<u>72,472,464</u>
The total actuarial liability was	\$137,504,782
System assets as of that date were (actuarial value)	<u>89,289,296</u>
The unfunded actuarial liability was	<u>\$48,215,486</u>
The ratio of system's assets to total actuarial liability was	64.9%
As of that date the total covered employee payroll was	\$20,247,662

The normal cost for employees on that date was 8.9% of payroll

The normal cost for the employer including administrative expenses was 9.6% of payroll

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

Investment Return: 7.25% per annum
 Rate of Salary Increase: Service based table with ultimate rates 4.25%, 4.50% and 4.75% for groups 1, 2 and 4 respectively.

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	\$89,289,296	\$137,504,782	\$48,215,486	64.9%	\$20,247,662	238.1%
1/1/2018	\$78,732,720	\$120,624,361	\$41,891,641	65.3%	\$18,808,468	222.7%
1/1/2016	\$68,606,078	\$111,893,171	\$43,287,093	61.3%	\$17,485,152	247.6%
1/1/2014	\$58,924,634	\$96,973,093	\$38,048,459	60.8%	\$15,550,726	244.7%
1/1/2012	\$51,992,733	\$88,054,145	\$36,061,412	59.0%	\$15,079,238	239.1%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retirement in Past Years										
Superannuation	11	6	10	11	9	11	7	15	6	11
Ordinary Disability	0	0	1	0	0	1	0	0	0	0
Accidental Disability	1	0	0	0	0	1	1	0	1	0
Total Retirements	12	6	11	11	9	13	8	15	7	11
Total Retirees, Beneficiaries and Survivors	216	223	216	220	225	224	222	230	230	237
Total Active Members	395	405	388	396	405	345	349	361	384	378
Pension Payments										
Superannuation	\$2,804,448	\$2,971,044	\$3,146,835	\$3,308,622	\$3,444,703	\$3,713,434	\$3,836,196	\$4,046,730	\$4,137,729	\$4,234,631
Survivor/Beneficiary Payments	192,478	171,919	198,168	183,567	196,786	181,861	155,437	155,973	185,616	198,663
Ordinary Disability	46,993	48,307	47,485	41,231	43,279	31,181	29,352	29,209	30,919	32,193
Accidental Disability	780,771	774,237	715,517	735,902	765,526	742,403	756,413	842,537	885,467	887,194
Other	<u>142,035</u>	<u>226,789</u>	<u>253,813</u>	<u>339,518</u>	<u>353,959</u>	<u>356,248</u>	<u>273,991</u>	<u>388,226</u>	<u>505,733</u>	<u>438,098</u>
Total Payments for Year	<u>\$3,966,725</u>	<u>\$4,192,296</u>	<u>\$4,361,818</u>	<u>\$4,608,840</u>	<u>\$4,804,253</u>	<u>\$5,025,128</u>	<u>\$5,051,389</u>	<u>\$5,462,676</u>	<u>\$5,745,466</u>	<u>\$5,790,778</u>

SUPPLEMENTARY INFORMATION (Continued)

LEASED PREMISES

The Newburyport Retirement Board leases approximately 500 square feet of space for its offices located at 16 Unicorn Street in Newburyport. They signed a lease for a 3-year term which expired October 31, 2019. A new lease was signed on April 25, 2019 for a 5-year term from January 1, 2020 through December 31, 2024. The landlord is DGP Realty, LLC.

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

<u>For the year ending:</u>	<u>Annual Rent</u>
2019	\$12,600
2020	13,200
2021	13,500
2022	13,800
2023	14,100
2024	<u>14,400</u>
Total future minimum lease payments required	<u>\$81,600</u>



COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chair*

WILLIAM T. KEEFE, *Executive Director*

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

August 1, 2024

Jeffrey Cutter, Chairperson
Newburyport Retirement Board
16 Unicorn Street
Newburyport, MA 01950

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

Dear Chairperson Cutter:

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

1. The Audit Report cited a finding that for some new retirees more than three years' worth of longevity payments were included in the three-year average salary used in superannuation retirement allowance calculations and more than one year's worth of longevity was included in the one-year average salary used in an accidental disability retirement allowance calculation.

Follow-up Result: We confirmed with the Retirement Board that the necessary corrections were made in September 2023. We reviewed the retirees' payroll records for the month before and after the month the corrections were made to verify that the corrected amounts were paid to the retirees. This issue is resolved.



August 1, 2024
Newburyport Follow up
Page Two

2. The Audit Report cited a finding that the minutes of four executive session meetings were missing.

Follow-up Result: We obtained and reviewed the minutes of all executive session meetings held between January 2023 through March 2024 without exception. This issue is resolved.

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

The Commission wishes to acknowledge the effort demonstrated by the staff of Newburyport to correct many of the issues from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,

A handwritten signature in cursive script that reads "Bill Keefe".

William T. Keefe
Executive Director

WTK/cms
cc: Newburyport Retirement Board Members