Norfolk County Contributory Retirement System Audit Report

JAN. 1, 2016 - DEC. 31, 2019

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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August 23, 2023

The Public Employee Retirement Administration Commission has completed an examination of the Norfolk County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2016 to December 31, 2019. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

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

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

Sincerely,

John W. Parsons, Esq.
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliations:

Cash reconciliations for Norfolk County Retirement Board's three bank accounts were reconciled by the Assistant Director instead of the County Treasurer. The Assistant Director has access to and records transactions to the General Ledger and therefore should not prepare the cash reconciliations. Also, reconciliations were not signed by the preparer and there were no dates to show that they were completed in a timely manner.

Recommendation: The County Treasurer should prepare the monthly cash reconciliations for better internal controls over cash. The reconciliations should be signed and dated by the preparer and reviewer for best documentation.

Board Response:

The Assistant Executive Director does not process cash receipts or cash disbursements allowing for a segregation of duties. The trial balance provides the preparer name and date.

2. 91A Overearnings:

We noted the following when reviewing retirees with 91A overearnings:

- The Board was not aware that one retiree had 2017 excess earnings. The Board will set up an installment plan for this.
- The Board waived payment of $40,000 of 2020 excess earnings for the same retiree noted above. The waiver language in G.L. c. 32, §20(5)(c)(3)(i) requires that "the error … persisted for a period in excess of one year". Excess earnings by a disability retiree should not be considered an error, and they also are not in the nature of the type of a repeated action that can persist for more than a year, such as incorrect deductions or monthly benefit payments.
- One retiree has four payment plans set up for 2018, 2019, 2020 and 2021 excess earnings to be paid off consecutively. The final payment is due December 2030. Although 840 CMR 15.02 (1) allows payment plans beyond five years, with Board approval, there was no Board vote regarding the additional time in this case. These payment plans all started after our audit period.

Recommendation: The Board should not waive amounts due from excess earnings and should review and set up a payment plan for the affected retiree to include the balance previously waived. The Board should vote on the extended payment plan for the other retiree. Board approvals for these payment plans should be documented in the meeting minutes.

Board Response:

The Board coordinated a payment plan for the retiree with 2017 excess earnings.

The Board acknowledges PERAC's recommendation.

For the payment plan beyond five (5) years, the Board voted to approve it.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. 3(8)(c) Billed Out to Other Boards:

There were five issues found out of 28 total retirees tested. Two Option C survivors were billed at 100% of the retiree's pension rather than the 2/3 survivor pension. One retiree's two 3(8)(c) bills were sent to the correct boards but with the amounts owed switched. Two dead retirees were billed past the day the retirement allowances ended because there was no pro-rating on the invoices in the year of death and they remained on the bill in subsequent years.

Recommendation: An Option C survivor's 3(8)(c) amount due must be calculated based on 2/3 of the retiree's original pension. If a retiree has 3(8)(c) letters for more than one board, care should be taken to ensure that the correct amount is billed to the correct board. When an Option A or B retiree passes away, a partial year calculation should be performed to the date of death and the deceased retiree should not be listed on the next year's bill.

Board Response:

The NCRS staff will be more conscientious dealing with 3(8)(c)'s.

4. Active Members' Payrolls and Pay codes:

We received 14 detailed payroll registers out of 21 total units that had been selected for testing. Therefore, we were unable to test payrolls for seven units (one third of those requested).

We noted pay code issues in about half of the payroll registers tested. There were pay codes that had retirement contributions withheld that are not regular compensation, such as overtime and severance. There were also pay codes that did not have contributions withheld that should have, such as stipends for education and being licensed.

We also did not receive explanations for many codes we inquired about, so the regular compensation status of those payments could not be determined.

Recommendation: The Board needs to review payrolls from all units and work with the payroll departments to determine if pay codes are properly classified as regular compensation or not. The Board should review the pay codes found at issue in our testing and make corrections as needed.

Board Response:

The Board agrees with the recommendation and has attempted to comply. However, the Board lacks statutory authority to compel the employer units to provide the information necessary to complete this review. On December 8, 2022, NCRS held an Employer Unit meeting at which the importance of pay codes was discussed as well as regular compensation.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

5. Board Meetings:

We noted the following when reading the monthly Board meeting minutes from January 2016 to October 2022:

- Bank statements, Cash Receipts, Adjusting Journal Entries and cashflow forecasts were not provided to the Board members at meetings.
- There was no quarterly review of Budget to Actual operating expenses.

Recommendation: The Board should be provided with a complete packet of financial reports at each monthly meeting. This includes a Trial Balance, Cash Receipts, Cash Disbursements, Adjusting Journal Entries, the cash reconciliations with bank statements, and cashflow forecasts. The Board should review the Budgeted to Actual expenses at least quarterly. The names and dates of reports provided should be documented in the minutes.

Board Response:

NCRS has implemented these recommendations.

FINAL DETERMINATION:

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

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2019	2018	2017	2016
Net Assets Available For Benefits:				
Cash	$19,098,715	$31,558,005	$24,670,103	$23,866,012
Short Term Investments	1,440,202	0	0	0
Fixed Income Securities	78,745,577	88,877,251	68,255,145	84,156,794
Equities	240,029,672	216,954,416	241,715,065	212,135,179
Pooled Domestic Equity Funds	113,765,080	141,560,340	151,411,783	132,255,587
Pooled International Equity Funds	106,735,951	82,915,321	103,308,994	72,022,280
Pooled Domestic Fixed Income Funds	69,106,669	53,615,278	62,017,945	46,545,328
Pooled Global Fixed Income Funds	64,135,859	57,573,912	70,384,512	42,752,046
Pooled Alternative Investment Funds	82,858,175	72,684,345	71,179,020	63,971,160
Pooled Real Estate Funds	96,007,863	88,417,884	88,406,467	90,166,288
Hedge Funds	94,240,635	74,590,822	76,758,594	61,738,086
Interest Due and Accrued	725,902	812,132	661,487	971,188
Prepaid Expenses	3,000	3,000	6,288	3,000
Accounts Receivable	149,399,594	4,185,052	5,969,130	6,538,740
Accounts Payable	(45,831,585)	(1,899,196)	(1,665,694)	(1,094,153)
Total	$1,070,461,310	$911,848,561	$963,078,838	$836,027,536
Fund Balances:				
Annuity Savings Fund	$296,098,905	$286,911,086	$277,694,514	$266,484,569
Annuity Reserve Fund	82,242,071	77,781,147	74,057,733	71,576,996
Pension Fund	2,247,864	3,613,574	6,480,676	9,126,483
Military Service Fund	37,953	37,915	37,878	37,840
Expense Fund	0	0	0	0
Pension Reserve Fund	689,834,517	543,504,839	604,808,038	488,801,649
Total	$1,070,461,310	$911,848,561	$963,078,838	$836,027,536

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	$254,602,849	$69,322,823	$9,942,778	$37,802	$0	$433,442,470	$767,348,723
Receipts	29,763,967	2,091,077	61,448,337	38	7,414,619	65,278,720	165,996,758
Interfund Transfers	(14,015,062)	14,021,068	9,913,535	0	0	(9,919,542)	0
Disbursements	(3,867,186)	(13,857,972)	(72,178,168)	0	(7,414,619)	0	(97,317,945)
Ending Balance 2016	266,484,569	71,576,996	9,126,483	37,840	0	488,801,649	836,027,536
Receipts	29,725,752	2,140,667	67,073,379	38	8,138,394	122,776,654	229,854,884
Interfund Transfers	(15,023,948)	15,023,873	6,770,340	0	0	(6,770,265)	0
Disbursements	(3,491,859)	(14,683,803)	(76,489,526)	0	(8,138,394)	0	(102,803,582)
Ending Balance 2017	277,694,514	74,057,733	6,480,676	37,878	0	604,808,038	963,078,838
Receipts	32,713,216	2,211,436	73,159,340	38	8,538,285	(56,736,686)	59,885,628
Interfund Transfers	(17,429,465)	17,356,272	4,639,706	0	0	(4,566,513)	0
Disbursements	(6,067,179)	(15,844,294)	(80,666,147)	0	(8,538,285)	0	(111,115,905)
Ending Balance 2018	286,911,086	77,781,147	3,613,574	37,915	0	543,504,839	911,848,561
Receipts	34,076,937	2,394,859	78,529,166	38	8,879,846	152,161,598	276,042,443
Interfund Transfers	(19,925,032)	19,934,055	5,822,896	0	0	(5,831,919)	0
Disbursements	(4,964,086)	(17,867,990)	(85,717,772)	0	(8,879,846)	0	(117,429,694)
Ending Balance 2019	$296,098,905	$82,242,071	$2,247,864	$37,953	$0	$689,834,517	$1,070,461,310

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Members Deductions	$29,986,964	$28,593,110	$27,201,662	$25,738,779
Transfers from Other Systems	3,339,972	3,287,347	1,675,731	3,315,449
Member Make Up Payments and Re-deposits	121,290	193,751	218,393	261,773
Member Payments from Rollovers	274,336	216,400	255,819	132,483
Investment Income Credited to Member Accounts	354,376	422,607	374,147	315,485
Sub Total	34,076,937	32,713,216	29,725,752	29,763,967
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	2,394,859	2,211,436	2,140,667	2,091,077
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	3,130,183	2,667,616	2,379,643	2,300,255
Received from Commonwealth for COLA and Survivor Benefits	471,455	507,968	636,033	598,104
Pension Fund Appropriation	74,899,528	69,957,756	64,009,904	58,539,478
Settlement of Workers' Compensation Claims	28,000	26,000	47,800	10,500
Recovery of 91A Overearnings	0	0	0	0
Sub Total	78,529,166	73,159,340	67,073,379	61,448,337
Military Service Fund:				
Investment Income Credited to the Military Service Fund	38	38	38	38
Expense Fund:				
Investment Income Credited to the Expense Fund	8,879,846	8,538,285	8,138,394	7,414,619
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	22,585
Pension Reserve Appropriation	123,239	124,521	867,696	0
Interest Not Refunded	39,124	74,056	59,728	23,238
Miscellaneous Income	7,655	5,321	2,331	8,252
Excess Investment Income	151,991,580	(56,940,585)	121,846,900	65,224,646
Sub Total	152,161,598	(56,736,686)	122,776,654	65,278,720
Total Receipts, Net	$276,042,443	$59,885,628	$229,854,884	$165,996,758

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Annuity Savings Fund:				
Refunds to Members	$1,441,568	$2,524,551	$1,266,788	$1,769,809
Transfers to Other Systems	3,522,518	3,542,628	2,225,071	2,097,376
Sub Total	4,964,086	6,067,179	3,491,859	3,867,186
Annuity Reserve Fund:				
Annuities Paid	17,231,505	15,616,830	14,535,491	13,562,663
Option B Refunds	636,485	227,464	148,313	295,310
Sub Total	17,867,990	15,844,294	14,683,803	13,857,972
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	61,280,106	56,601,992	53,775,754	51,185,742
Survivorship Payments	4,081,089	4,017,284	3,754,705	3,486,429
Ordinary Disability Payments	734,577	742,938	738,353	734,154
Accidental Disability Payments	10,946,881	10,780,953	10,551,374	10,462,354
Accidental Death Payments	1,719,976	1,736,121	1,773,576	1,718,948
Section 101 Benefits	446,433	431,372	425,057	411,363
3 (8) (c) Reimbursements to Other Systems	5,579,252	5,527,999	4,834,674	3,581,074
State Reimbursable COLA's Paid	929,457	827,488	636,033	598,104
Sub Total	85,717,772	80,666,147	76,489,526	72,178,168
Expense Fund:				
Board Member Stipend	22,500	22,500	22,500	22,500
Salaries	553,659	560,777	651,584	593,850
Benefits	136,388	131,617	0	0
Legal Expenses	185,031	132,211	99,714	114,017
Travel Expenses	14,735	10,883	10,743	23,029
Administrative Expenses	64,489	68,665	189,425	171,979
Professional Services	8,880	25,850	17,354	9,284
Actuarial Services	1,875	12,000	1,000	19,200
Accounting Services	35,119	33,607	33,614	32,000
Education and Training	8,539	6,784	4,600	9,950
Furniture and Equipment	2,696	15,304	6,157	21,844
Management Fees	6,878,544	6,555,231	6,138,787	5,501,760
Custodial Fees	517,483	517,938	538,173	519,276
Consultant Fees	250,000	250,000	245,833	200,000
Rent Expenses	59,728	60,602	57,194	56,090
Service Contracts	83,571	80,231	68,816	67,691
Fiduciary Insurance	56,609	54,087	52,900	52,149
Sub Total	8,879,846	8,538,285	8,138,394	7,414,619
Total Disbursements	$117,429,694	$111,115,905	$102,803,582	$97,317,945

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2019	2018	2017	2016
Investment Income Received From:				
Cash	$416,422	$418,861	$120,704	$38,788
Fixed Income	3,740,876	3,399,626	3,915,090	4,994,751
Equities	5,094,473	4,276,840	3,660,620	4,877,892
Pooled or Mutual Funds	2,348,476	766,367	954,206	248,326
Commission Recapture	787	1,698	2,382	3,091
Total Investment Income	11,601,034	8,863,393	8,653,003	10,162,848
Plus:				
Realized Gains	21,601,315	9,054,041	11,075,614	11,217,504
Unrealized Gains	139,332,476	19,451,917	122,681,958	72,099,174
Interest Due and Accrued - Current Year	725,902	812,132	661,487	971,188
Sub Total	161,659,692	29,318,089	134,419,059	84,287,867
Less:				
Paid Accrued Interest on Fixed Income Securities	(129,970)	(159,826)	(51,242)	(240,954)
Realized Loss	(8,224,688)	(8,155,777)	(6,355,641)	(11,785,534)
Unrealized Loss	772,110	(74,814,479)	(3,193,846)	(6,453,775)
Interest Due and Accrued - Prior Year	(812,132)	(661,487)	(971,188)	(924,587)
Sub Total	(8,394,680)	(83,791,569)	(10,571,917)	(19,404,851)
Additional Adjustments:				
Carried Interest Expense	(78,696)	(85,213)	0	0
Equalization Expense	(1,101,624)	(9,296)	0	0
Miscellaneous Investment Expenses	(65,028)	(63,623)	0	0
Sub Total	(1,245,348)	(158,132)	0	0
Net Investment Income	163,620,698	(45,768,219)	132,500,145	75,045,864
Income Required:				
Annuity Savings Fund	354,376	422,607	374,147	315,485
Annuity Reserve Fund	2,394,859	2,211,436	2,140,667	2,091,077
Military Service Fund	38	38	38	38
Expense Fund	8,879,846	8,538,285	8,138,394	7,414,619
Total Income Required	11,629,118	11,172,366	10,653,246	9,821,218
Net Investment Income	163,620,698	(45,768,219)	132,500,145	75,045,864
Less: Total Income Required	11,629,118	11,172,366	10,653,246	9,821,218
Excess Income (Loss) To The Pension Reserve Fund	$151,991,580	($56,940,585)	$121,846,900	$65,224,646

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2019	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$19,098,715	2.0%
Short Term Investments	1,440,202	0.1%
Fixed Income Securities	78,745,577	8.2%
Equities	240,029,672	24.8%
Pooled Domestic Equity Funds	113,765,080	11.8%
Pooled International Equity Funds	106,735,951	11.0%
Pooled Domestic Fixed Income Funds	69,106,669	7.2%
Pooled Global Fixed Income Funds	64,135,859	6.6%
Pooled Alternative Investment Funds	82,858,175	8.6%
Pooled Real Estate Funds	96,007,863	9.9%
Hedge Funds	94,240,635	9.8%
Grand Total	$966,164,400	100.0%

For the year ending December 31, 2019, the rate of return for the investments of the Norfolk County Retirement System was 17.32%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Norfolk County Retirement System averaged 7.08%. 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 Norfolk County Retirement System was 8.59%.

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%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

- completion of 20 years of service, or

- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or

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

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

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

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

- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

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

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

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

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

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

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

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

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTE 3 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the County Treasurer who shall be a member ex-officio, a second member appointed by the County Commisioners, 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 Advisory Council.

Ex-officio Member:	Michael G. Bellotti, Chairperson		
Appointed Member:	Paul J. Connors	Term Expires:	12/31/24
Elected Member:	Josphine E. Shea	Term Expires:	12/31/25
Elected Member:	Edwin S. Little	Term Expires:	12/31/23
Appointed Member:	Lisa J. Sinkus	Term Expires:	12/31/23

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Sherman Actuarial Services, LLC as of January 1, 2022.

The actuarial liability for active members was	$730,779,754
The actuarial liability for terminated members was	31,144,421
The actuarial liability for retired members and beneficiaries was	1,031,075,899
The total actuarial liability was	$1,793,000,074
System assets as of that date were (actuarial value)	1,287,640,091
The unfunded actuarial liability was	$505,359,983
The ratio of system's assets to total actuarial liability was	71.8%
As of that date the total covered employee payroll was	$339,571,217

The normal cost for employees on that date was	9.0% of payroll
The normal cost for the employer including administrative expenses was	3.1% of payroll

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

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies with service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2022

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)
1/1/2022	$1,287,640,091	$1,793,000,074	$505,359,983	71.8%	$339,571,217	148.8%
1/1/2020	$1,052,289,789	$1,657,574,687	$605,284,898	63.5%	$312,868,862	193.5%
1/1/2018	$945,554,676	$1,516,083,187	$570,528,511	62.4%	$289,125,863	197.3%
1/1/2016	$814,225,634	$1,310,561,438	$496,335,804	62.1%	$267,454,300	185.6%
1/1/2014	$696,682,779	$1,247,596,772	$550,913,993	55.8%	$246,722,941	223.3%

NOTE 5 - MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Retirement in Past Years										
Superannuation	159	123	137	147	166	174	153	171	180	194
Ordinary Disability	3	2	4	1	0	0	0	0	0	0
Accidental Disability	7	10	5	6	7	15	3	5	8	20
Total Retirements	169	135	146	154	173	189	156	176	188	214
Total Retirees, Beneficiaries and Survivors	2,874	2,938	2,981	3,037	3,106	3,190	3,252	3,336	3,411	3,526
Total Active Members	5,007	5,201	5,286	5,063	5,089	5,198	5,191	5,446	5,351	5,651
Pension Payments										
Superannuation	$36,473,550	$38,844,598	$40,867,044	$42,762,712	$45,813,129	$48,007,309	$51,185,742	$53,775,754	$56,601,992	$61,280,106
Survivor/Beneficiary Payments	2,476,093	2,586,935	2,756,853	3,038,707	3,204,446	3,350,734	3,486,429	3,754,705	4,017,284	4,081,089
Ordinary Disability	500,295	598,038	633,203	655,088	847,886	731,620	734,154	738,353	742,938	734,577
Accidental Disability	8,027,286	8,465,538	8,816,421	9,011,955	9,311,462	10,292,729	10,462,354	10,551,374	10,780,953	10,946,881
Other	4,862,341	5,059,152	5,218,345	5,696,968	5,295,998	6,107,724	6,309,489	7,669,341	8,522,979	8,675,119
Total Payments for Year	$52,339,565	$55,554,261	$58,291,866	$61,165,430	$64,472,921	$68,490,116	$72,178,168	$76,489,526	$80,666,147	$85,717,772

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 – LEASED PREMISES

The Norfolk County Retirement Board leases approximately 3,000 square feet of space for its offices located at Building 15, 480 Neponset Street, Canton, MA. The initial lease was dated August 2, 1996. The fourth amendment to the lease was effective September 1, 2016 through August 31, 2021. There is a fifth amendment to the lease effective September 1, 2021. The landlord is 480 Neponset LLC, successor to APCA Neponset, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2019:

For the year ending:	Annual Rent
2020	$48,000
2021	48,250
2022	49,250
2023	50,750
2024	52,250
2025	53,750
2026 through August	36,500
Total future minimum lease payments required	$338,750

Note: Security deposit in the amount of $3,000 currently held by the landlord. Deposit will remain in place during the extended term of the lease.

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

August 1, 2024

Michael G. Bellotti, Chairperson
Norfolk County Retirement System
480 Neponset Street, #15
Canton, MA 02021

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

Dear Chairperson Bellotti:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Norfolk County 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 cash reconciliations are prepared by the Assistant Director, not the County Treasurer. Reconciliations were not signed and there were no dates to show that they were completed timely.

Follow-up Result: While the cash reconciliations are still prepared by the Assistant Director, the Board members, including the County Treasurer, review and sign off on the monthly financial package list showing the reconciliations as an item presented at the monthly meeting. This started in July 2023. We noted the December 2023 reconciliations were presented at the January 2024 meeting. This issue is partially resolved.

2. The Audit Report cited a finding that the Board was not aware of a retiree's 91A excess earnings in 2017 and had also waived $40,000 in excess earnings from the same retiree for overearnings in 2020. A different retiree was given multiple payment plans for excess earnings with terms exceeding 5 years without the Board's approval regarding the additional time.

Follow-up Result: While the first retiree paid the excess earnings for 2017, the Board has not pursued the $40,000 of excess earnings that were waived. The Board must collect the $40,000 that was previously waived, either by a payment plan or in one lump sum. The Board is planning to vote to approve the second retiree's payment plan at the June 2024 meeting. This issue is partially resolved.

3. The Audit Report cited a finding where the Board billed 3(8)(c)s for two option C survivors at the full rate (not 2/3 rate), one member's 3(8)(c) billing amounts for two different boards were switched, and two deceased retirees were still included in the 3(8)(c) billings.

Follow-up Result: The Board sent correspondence on June 11, 2024 to the other boards informing them of the errors and corrections related to the 3(8)(c) billings. The Board provided copies of revised 3(8)(c) letters for the one member with billing amounts for two different boards showing this was not an error. This issue is resolved.

4. The Audit Report cited a finding that some units selected did not provide a payroll register for testing. Of the payroll registers received, about half had issues with pay codes that were wrongfully included in regular compensation, wrongfully excluded from regular compensation, or were too vague to determine.

Follow-up Result: The units still have not provided payroll registers to the Board. The Board does not regularly review payroll registers; however, they will review a pay code when it is brought to their attention and will review unknown pay codes at retirement. The Board held a meeting with the units in December 2022 regarding pay codes and plans to have another meeting in the Fall of 2024 after the full actuarial valuation. This issue is resolved.

5. The Audit Report cited a finding that financial documents such as bank statements, cash receipts, adjusting journal entries, and cashflow forecasts were not provided to the Board members at meetings. The Board was not reviewing Budget to Actual operating expenses on a quarterly basis.

Follow-up Result: The Board is presented with a monthly financial package at every meeting starting with the July 2023 meeting. The minutes do not consistently detail the names or dates of reports provided, but there is a signature page listing the reports and dates. 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 the Norfolk County Retirement System to correct many of the issues from the most recent examination of the system. 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,

Bill Keefe

William Keefe
Executive Director

WK/cms
cc: Norfolk County Retirement System Members