Norwood

Retirement System
Audit Report
January 1, 2012 - December 31, 2014

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

March 31, 2022

The Public Employee Retirement Administration Commission has completed an examination of the Norwood Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2015 to December 31, 2018. 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

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

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliations:

Cash reconciliations for the three bank accounts were prepared by Retirement Board staff instead of the Treasurer. Reconciliations were signed by the Board staff and Treasurer, but there were no dates to show that they were completed timely.

The Board's policy is to review outstanding checks over six months old, however, there were 27 stale outstanding checks totaling approximately $23,000 on the retiree payroll account reconciliation at the end of the audit period (December 31, 2018). By the March 31, 2021 reconciliation the count was 15 stale outstanding checks totaling approximately $5,000. The same 13 small checks that totaled $62 were included in both reconciliations.

There are many reconciling items on the payroll account reconciliation described as "voids". These items have been added back to the General Ledger (GL) but not removed from the outstanding check list.

Recommendation: For better internal controls over cash, the Treasurer should prepare the reconciliations from the bank to the GL each month. The person processing the GL accounting should not prepare the cash reconciliations. The Board should follow its own policy and address outstanding checks that are over six months old. The Board also needs to communicate to the Treasurer when outstanding checks have been voided so that they can be removed from the bank's outstanding checks listing.

Board Response:

The staff will work with the Treasurer to facilitate this going forward.

2. Board Meetings:

We noted the following when reading the monthly Board meeting minutes from January 2015 to May 2021:

- The Board members were not presented with any financial reports at monthly meetings.
- There was no quarterly review of Budget to Actual expenses.
- The Board did not post the opening for the Fifth Board member in 2019.
- Minutes of the executive session in January 2020 were missing.

Recommendation: The Board should be provided with a financial packet 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. Appointment of the Fifth Board member must follow PERAC memo #28, 2017. The Board must maintain all regular and executive session meeting minutes per the Open Meeting Law.

Board Response:

The staff will provide accounting at monthly or quarterly meetings along with a budget analysis of expenditures during that period. The Board will also post for the 5th member position as it has done in the past. The Board does maintain all regular and executive session minutes and is at a loss as to why the January 2020 executive minutes were missing. However, the Board will make certain that all minutes are maintained going forward.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. New Retirements:

We tested a sample of new retirements during the audit period and found the following:

- The Board was unable to provide one retired member's folder.
- PERAC Approval letters were missing for more than half of the superannuation retirees and six out of seven disability retirees tested.
- One Accidental Disability retiree's allowance was limited to 80% of the salary by mistake. This member was underpaid by about $5,400 per year or $12,600 through December 2018. Also, dependent allowances were not paid for six months at the start of retirement, resulting in an additional underpayment of about $2,000.
- One Accidental Disability retiree has not received the $15 per year of service veterans' allowance since their 2017 retirement date.

Recommendation: The Board does not have a waiver from PERAC for superannuation retirements and should send in all allowance calculations, including accidental disabilities, to the Actuarial unit for PERAC approval. The Board must review and correct the two retirement allowances noted above and check for other Accidental Disability calculations which may have been limited to 80% of salary in error. Interest will need to be paid when correcting any allowances.

Board Response:

The staff will review and provide the information for approvals to PERAC. We are in the process of trying to convert our software to PTG. However, it has been a slow process on the Town's IT side as the Town has converted to MUNIS and continues to have issues which is causing a significant delay in getting information needed for our conversion to PTG.

The error has been corrected for the additional $15 for Veteran's Allowance and the office is reviewing the allowances with respect to the 80% limit and will correct the allowances to include the additional benefits due.

4. Active Members:

We reviewed a sample of active members' folders and noted birth certificates and SSA 1945 forms missing from some.

During our testing of active members payrolls, we noted that there were only three van drivers in the school transportation department with retirement deductions. There were an additional seven employees with this job title or the title "van monitor" that had no deductions even though they worked more than 20 hours. The Board administrator is going to meet with the Human Resources Department to determine whether those employees are eligible to be enrolled in the Retirement System.

Recommendation: The Board needs to follow its policy and obtain birth certificates at enrollment. Also, a signed SSA 1945 form should be maintained for all new members hired after January 2005. Any of the van drivers/monitors who are eligible for membership must be enrolled.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The staff has had meetings with HR and the School Department regarding the van drivers in the transportation department and the review is ongoing. Once it has been determined whether or not these drivers should be members then the appropriate action will be taken.

Also, the staff has reached out to the new hires regarding missing documentation and will continue to work on reviewing and maintaining active files. In connection with the Towns conversion to MUNIS the office has been precluded from payroll access (even read only) information with respect to new hires. As such, this office has a difficult time verifying new hires/members. In 2021 alone, we had identified that we had not received the necessary paperwork for over 75% of new hires. We are trying to work with HR, advising them just how important it is that we have this information immediately upon hire.

5. Final Payments for Deceased Retirees:

We tested the final payment calculations for 12 deceased retirees during the audit period and found errors with three payments. One retiree's payroll was not stopped at the date of death and resulted in an overpayment of $2,000. Another retiree was not paid the final partial month for an underpayment of about $900. The third retiree's Option C beneficiary was not paid for the first partial month of about $400.

Recommendation: The Board should make all necessary corrections for the errors found in testing and review all other final payments for deceased retirees from the start of the audit period forward.

Board Response:

The Board recognizes that payment was owed to two deceased retirees and has already made the adjustment and paid their survivor(s) as of November 2021. The staff will review the years since the audit going forward and will reach out to Board Counsel for guidance regarding the overpayment.

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, 2018	2017	2016	2015
Net Assets Available For Benefits:				
Cash	$2,233,067	$1,405,941	$962,889	$2,403,926
Fixed Income Securities	6,682,007	6,770,063	6,527,926	6,250,721
Equities	25,820,259	32,869,087	33,467,023	27,980,271
Pooled Domestic Equity Funds	15,378,444	18,460,947	21,388,708	19,985,217
Pooled International Equity Funds	34,066,486	48,422,883	32,545,036	29,235,051
Pooled Domestic Fixed Income Funds	15,029,901	21,272,011	19,195,900	17,453,271
Pooled International Fixed Income Funds	7,548,559	8,119,988	7,256,645	5,515,166
Pooled Alternative Investment Funds	25,063,236	6,496,656	2,135,378	1,488,745
Pooled Real Estate Funds	22,300,231	21,228,701	19,578,328	14,547,506
Hedge Funds	0	0	0	9,865,513
Interest Due and Accrued	28,476	25,992	26,788	27,456
Accounts Receivable	0	370,425	250,387	59,545
Accounts Payable	(112,600)	(487,582)	(282,745)	(196,839)
Total	$154,038,067	$164,955,112	$143,052,263	$134,615,550
Fund Balances:				
Annuity Savings Fund	34,719,412	33,335,805	32,671,524	32,417,761
Annuity Reserve Fund	12,469,966	12,376,431	11,452,912	10,047,145
Pension Fund	0	0	0	0
Military Service Fund	39,239	39,200	39,161	0
Expense Fund	0	0	0	0
Pension Reserve Fund	106,809,448	119,203,676	98,888,666	92,150,644
Total	$154,038,067	$164,955,112	$143,052,263	$134,615,550

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	$32,766,191	$8,334,100	$0	$0	$0	$97,154,631	$138,254,922
Receipts	3,074,429	288,584	4,550,228	0	1,171,247	(618,877)	8,465,611
Interfund Transfers	(3,085,226)	3,085,319	4,385,017	0	0	(4,385,110)	0
Disbursements	(337,632)	(1,660,859)	(8,935,245)	0	(1,171,247)	0	(12,104,983)
Ending Balance 2015	32,417,761	10,047,145	0	0	0	92,150,644	134,615,550
Receipts	3,578,511	326,492	4,919,347	39,161	1,149,340	11,196,958	21,209,809
Interfund Transfers	(2,913,141)	2,913,308	4,458,769	0	0	(4,458,936)	0
Disbursements	(411,607)	(1,834,033)	(9,378,116)	0	(1,149,340)	0	(12,773,097)
Ending Balance 2016	32,671,524	11,452,912	0	39,161	0	98,888,666	143,052,263
Receipts	3,560,016	352,428	5,410,306	39	1,307,670	24,907,472	35,537,931
Interfund Transfers	(2,648,189)	2,648,189	4,592,462	0	0	(4,592,462)	0
Disbursements	(247,547)	(2,077,097)	(10,002,767)	0	(1,307,670)	0	(13,635,082)
Ending Balance 2017	33,335,805	12,376,431	0	39,200	0	119,203,676	164,955,112
Receipts	3,585,768	367,227	5,388,937	39	1,414,289	(7,249,720)	3,506,541
Interfund Transfers	(1,985,159)	1,985,159	5,144,508	0	0	(5,144,508)	0
Disbursements	(217,002)	(2,258,850)	(10,533,445)	0	(1,414,289)	0	(14,423,586)
Ending Balance 2018	$34,719,412	$12,469,966	$0	$39,239	$0	$106,809,448	$154,038,067

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Members Deductions	$3,274,657	$3,094,876	$2,963,431	$2,814,309
Transfers from Other Systems	227,236	393,425	536,977	200,220
Member Make Up Payments and Re-deposits	46,541	30,728	46,608	28,865
Investment Income Credited to Member Accounts	37,334	40,987	31,494	31,035
Sub Total	3,585,768	3,560,016	3,578,511	3,074,429
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	367,227	352,428	326,492	288,584
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	281,125	296,687	255,924	227,180
Received from Commonwealth for COLA and Survivor Benefits	67,993	75,251	89,025	100,392
Pension Fund Appropriation	5,031,819	5,038,368	4,574,397	4,214,257
Settlement of Workers' Compensation Claims	8,000	0	0	8,400
Recovery of 91A Overearnings	0	0	0	0
Sub Total	5,388,937	5,410,306	4,919,347	4,550,228
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	39,161	0
Investment Income Credited to the Military Service Fund	39	39	0	0
Sub Total	39	39	39,161	0
Expense Fund:				
Investment Income Credited to the Expense Fund	1,414,289	1,307,670	1,149,340	1,171,247
Pension Reserve Fund:				
Federal Grant Reimbursement	128,310	5,602	76,671	74,772
Interest Not Refunded	0	0	0	1,002
Miscellaneous Income	1,002	0	31,446	0
Excess Investment Income	(7,379,032)	24,901,870	11,088,842	(694,651)
Sub Total	(7,249,720)	24,907,472	11,196,958	(618,877)
Total Receipts, Net	$3,506,541	$35,537,931	$21,209,809	$8,465,611

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Annuity Savings Fund:				
Refunds to Members	$58,676	$169,057	$98,743	$216,626
Transfers to Other Systems	158,326	78,490	312,864	121,007
Sub Total	217,002	247,547	411,607	337,632
Annuity Reserve Fund:				
Annuities Paid	2,200,251	1,994,048	1,798,280	1,622,296
Option B Refunds	58,599	83,049	35,753	38,563
Sub Total	2,258,850	2,077,097	1,834,033	1,660,859
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	7,389,348	6,963,974	6,403,630	5,978,653
Survivorship Payments	578,266	563,919	587,948	606,098
Ordinary Disability Payments	75,759	49,289	58,585	56,555
Accidental Disability Payments	1,670,511	1,598,628	1,552,558	1,472,642
Accidental Death Payments	333,416	340,325	384,106	400,411
Section 101 Benefits	110,085	112,812	99,818	90,763
3 (8) (c) Reimbursements to Other Systems	376,060	373,820	291,471	330,124
Sub Total	10,533,445	10,002,767	9,378,116	8,935,245
Expense Fund:				
Board Member Stipend	22,500	22,500	22,500	18,750
Salaries	189,603	187,929	179,926	166,943
Legal Expenses	8,133	9,467	6,413	6,222
Medical Expenses	0	186	73	0
Travel Expenses	4,722	5,246	4,511	5,313
Administrative Expenses	6,258	7,408	6,343	6,161
Actuarial Services	10,000	0	14,750	2,000
Accounting Services	10,000	10,000	9,500	9,500
Education and Training	3,280	2,700	1,800	2,430
Furniture and Equipment	0	1,920	0	0
Management Fees	951,264	856,465	714,547	758,169
Custodial Fees	95,063	88,016	80,765	87,309
Consultant Fees	85,000	85,000	85,000	82,500
Rent Expenses	3,998	3,302	3,402	3,078
Service Contracts	16,800	20,030	12,414	15,690
Fiduciary Insurance	7,669	7,503	7,398	7,181
Sub Total	1,414,289	1,307,670	1,149,340	1,171,247
Total Disbursements	$14,423,586	$13,635,082	$12,773,097	$12,104,983

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2018	2017	2016	2015
Investment Income Received From:				
Cash	$22,093	$3,714	$96	$165
Fixed Income	63,099	66,836	67,289	72,150
Equities	598,434	608,391	570,179	521,296
Pooled or Mutual Funds	3,748,926	3,623,220	2,540,740	2,558,867
Total Investment Income	4,432,553	4,302,161	3,178,304	3,152,478
Plus:				
Realized Gains	6,349,481	4,187,499	3,108,617	5,058,044
Unrealized Gains	10,745,557	21,796,734	16,078,089	10,831,793
Interest Due and Accrued - Current Year	28,476	25,992	26,788	27,456
Sub Total	17,123,514	26,010,226	19,213,493	15,917,293
Less:				
Paid Accrued Interest on Fixed Income Securities	(874)	(1,180)	(589)	(513)
Realized Loss	(1,786,053)	(1,512,089)	(1,159,207)	(1,870,379)
Unrealized Loss	(25,303,289)	(2,169,336)	(8,608,377)	(16,372,634)
Interest Due and Accrued - Prior Year	(25,992)	(26,788)	(27,456)	(30,029)
Sub Total	(27,116,209)	(3,709,393)	(9,795,629)	(18,273,555)
Net Investment Income	(5,560,143)	26,602,994	12,596,168	796,215
Income Required:				
Annuity Savings Fund	37,334	40,987	31,494	31,035
Annuity Reserve Fund	367,227	352,428	326,492	288,584
Military Service Fund	39	39	0	0
Expense Fund	1,414,289	1,307,670	1,149,340	1,171,247
Total Income Required	1,818,889	1,701,124	1,507,327	1,490,866
Net Investment Income	(5,560,143)	26,602,994	12,596,168	796,215
Less: Total Income Required	1,818,889	1,701,124	1,507,327	1,490,866
Excess Income (Loss) To The Pension Reserve Fund	($7,379,032)	$24,901,870	$11,088,842	($694,651)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2018	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,233,067	1.4%
Fixed Income Securities	6,682,007	4.3%
Equities	25,820,259	16.8%
Pooled Domestic Equity Funds	15,378,444	10.0%
Pooled International Equity Funds	34,066,486	22.1%
Pooled Domestic Fixed Income Funds	15,029,901	9.8%
Pooled International Fixed Income Funds	7,548,559	4.9%
Pooled Alternative Investment Funds	25,063,236	16.3%
Pooled Real Estate Funds	22,300,231	14.5%
Grand Total	$154,122,190	100.0%

For the year ending December 31, 2018, the rate of return for the investments of the Norwood Retirement System was -3.54%. For the five-year period ending December 31, 2018, the rate of return for the investments of the Norwood Retirement System averaged 5.90%. 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 Norwood Retirement System was 8.88%.

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%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

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

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

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

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

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

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (OPTION D)

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

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

COST OF LIVING

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Clerk/Accountant 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:	Margaret LaMay		
Appointed Member:	Ted Mulvehill, Jr., Chairperson	Serves until a successor is appointed	
Elected Member:	Eileen P. Hickey	Term Expires:	10/14/22
Elected Member:	Tom O'Toole	Term Expires:	12/1/23
Appointed Member:	Thomas A. Rorrie	Term Expires:	9/2/22

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

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$95,996,024
The actuarial liability for retired and inactive members was	120,999,095
The total actuarial liability was	$216,995,119
System assets as of that date were (actuarial value)	170,070,394
The unfunded actuarial liability was	$46,924,725
The ratio of system's assets to total actuarial liability was	78.4%
As of that date the total covered employee payroll was	$36,842,650

The normal cost for employees on that date was	8.8% of payroll
The normal cost for the employer including administrative expenses was	2.1% of payroll

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

Investment Return:	7.60% per annum
Rate of Salary Increase:	3.00% per annum

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	$170,070,394	$216,995,119	$46,924,725	78.4%	$36,842,650	127.4%
1/1/2018	$157,572,627	$195,559,300	$37,986,673	80.6%	$32,553,010	116.7%
1/1/2016	$142,107,476	$179,588,256	$37,480,780	79.1%	$29,768,676	125.9%
1/1/2014	$128,038,571	$166,388,128	$38,349,557	77.0%	$29,112,640	131.7%
1/1/2012	$117,666,912	$149,016,276	$31,349,364	79.0%	$28,520,480	109.9%

NOTE 5 - MEMBERSHIP EXHIBIT

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retirement in Past Years										
Superannuation	13	14	21	19	11	18	26	30	22	23
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	5	1	0	1	1	0	3	0	1
Total Retirements	14	19	22	19	12	19	26	33	22	24
Total Retirees, Beneficiaries and Survivors	354	349	382	363	361	361	367	382	391	405
Total Active Members	576	554	610	595	571	585	581	597	628	640
Pension Payments										
Superannuation	$4,203,248	$4,342,954	$4,616,514	$4,735,919	$5,001,375	$5,312,872	$5,978,653	$6,403,630	$6,963,974	$7,389,348
Survivor/Beneficiary Payments	409,976	423,483	409,879	438,049	464,259	492,799	606,098	587,948	563,919	578,266
Ordinary Disability	114,557	85,655	87,530	89,555	75,392	62,718	56,555	58,585	49,289	75,759
Accidental Disability	1,129,627	1,260,495	1,351,209	1,470,633	1,455,413	1,530,545	1,472,642	1,552,558	1,598,628	1,670,511
Other	690,609	713,886	721,313	558,651	508,227	484,919	821,298	775,394	826,957	819,561
Total Payments for Year	$6,548,017	$6,826,473	$7,186,445	$7,292,807	$7,504,667	$7,883,853	$8,935,245	$9,378,116	$10,002,767	$10,533,445

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 – LEASED PREMISES

The Norwood Retirement Board leases approximately 1,368 square feet of space for its offices located at 900B Washington Street, Norwood, MA. They signed an initial 5-year lease on January 29, 2021 to commence on February 1, 2021. The landlord is Rama Shopping Center, Inc.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of February 1, 2021:

For the year ending:	Annual Base Rent
2021	$27,588.00
2022	$30,785.70
2023	$31,555.34
2024	$32,344.23
2025	$33,152.83
2026 (through January)	$ 2,768.36
Total future minimum lease payments required	$158,194.46

Note: A security deposit equal to one month's rent was paid in 2021. The Board pays an additional amount with the base rent for taxes based on the Town of Norwood's yearly assessment.

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

April 6, 2023

Ted Mulvehill, Jr., Chairperson
Norwood Retirement Board
900B Washington Street
Norwood, MA 02062

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

Dear Chairperson Mulvehill:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Norwood 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 for the three bank accounts were prepared by Retirement Board staff instead of the Treasurer and there were several outstanding checks over six months in the payroll account reconciliations.

Follow-up Result: Cash reconciliations from July - December 2022 were reviewed and we noted they were still prepared by the Retirement Board staff instead of the Treasurer. Outstanding checks listings were not part of the reconciliations for the payroll account because the Board did not get reconciliation reports with outstanding checks from the bank. These were provided to the Treasurer's office but not the Retirement office. The Administrator is estimating the outstanding checks total but is unable to specify individual checks outstanding without this information. The Administrator has reached out to the new Treasurer and hopes to be able to work with him to ensure that all bank reconciliations are prepared correctly starting with January 2022 through to present date. This issue is not resolved.

2. The Audit Report cited a finding that financial reports were not presented to the Board members at monthly meetings, quarterly reviews of Budget to Actual expenses were not presented, the opening of the Fifth member position was not posted and the executive session minutes for January 2020 meeting were missing.

Follow-up Result: The Board was presented with financial reports during monthly meetings from May - December 2022, quarterly reviews of budget to actual expenses were presented, the fifth member opening was posted and there were no missing executive session minutes during this period. This issue is resolved.

3. The Audit Report cited a finding regarding new retirees. Specifically, that one retired member's folder was missing, several superannuation and disability retirees tested did not have PERAC approval letters for their retirement allowance calculations, one accidental disability retiree's allowance was limited to 80% by mistake and another accidental disability retiree did not receive the veteran's allowance.

Follow-up Result: A review of four members who retired in 2022 noted no PERAC approval letters in their folders. The Board provided the folder of the retiree and about half of PERAC approval letters which were missing from the audit testing. They provided approval letters for superannuation retirements, but not for disability retirements. The Board provided corrections for the two accidental disability retirement allowances. The Board is working on sending all required information to PERAC for retirees without approval letters. This issue is partially resolved.

4. The Audit Report cited a finding that some active members' folders were missing birth certificates and SSA 1945 forms. Also, members with the job title "van monitor" who work more than 20 hours had no retirement deductions taken.

Follow-up Result: A review of four active members hired in 2022 had folders with birth certificates and SSA 1945 forms. The Board is working with the school department to enroll any van monitors/drivers who are eligible for membership. This issue is partially resolved.

5. The Audit Report cited a finding related to errors with final payments made for deceased retirees. One retiree was overpaid by about $2,000, another retiree was underpaid by $900, and a third retiree was underpaid by $400.

Follow-up Result: The Board voted not to recover the overpayment of $2,000 at their April 2022 meeting because the death was over seven years ago. Payments were issued for the two retirees who were underpaid. This issue is resolved.

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

The Commission wishes to acknowledge the effort demonstrated by the staff of the Norwood Retirement Board 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,

John W. Parsons, Esq.
Executive Director

cc: Norwood Retirement Board Members

JWP/dmd