Northbridge

Contributory Retirement System Audit Report

jan. 1, 2017 - dec. 31, 2020

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

Letter from the Executive Director 1

Explanation of Finding and Recommendation 2

Board's Annual Statements (as submitted):

- Statement of Ledger Assets and Liabilities 3
- Statement of Changes in Fund Balances 4
- Statement of Receipts 5
- Statement of Disbursements 6
- Investment Income 7

Supplementary Information:

- Schedule of Allocation of Investments Owned 8
- Summary of Plan Provisions 9
- Significant Accounting Policies 16
- Administration of the System 18
- Board Regulations 18
- Actuarial Valuation and Assumptions 19
- Membership Exhibit 20

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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September 7, 2023

The Public Employee Retirement Administration Commission has completed an examination of certain activities of the Northbridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2017 to December 31, 2020. Based on an assessment in accordance with the policy outlined in PERAC Memo #18/2019, the scope of this audit was modified as noted below and was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

The specific objectives of our audit were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that investment balances are accurately stated, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Northbridge Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash and investment balances, and tested a sample of travel expenses for Board approvals, supporting documentation, and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over $30,000. We also tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We reviewed a sample of member files for accuracy and completeness.

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

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

Sincerely,

John W. Parsons, Esq.
Executive Director

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EXPLANATION OF FINDING AND RECOMMENDATION

New Retirees' Calculations:

We tested the retirement allowance calculation of 15 new retirees during the audit period and found that six need to be recalculated for various reasons.

- One retiree was on workers' compensation during the final three years and had incorrect amounts for both the creditable service and the three-year average. Pursuant to §14(1)(a), members receiving total incapacity workers' compensation payments "shall have credited to him as creditable service under the system the period during which he is receiving such weekly payments"; the Board had taken away service for this time. Pursuant to §5(3)(b), the salary to be used for this period of creditable service with no regular compensation is "the rate in effect for him immediately preceding any period of his absence without compensation"; the Board instead used three years prior to the time on workers' compensation.
- A second retiree had an unpaid one-week leave of absence that was counted as $0 when calculating the three-year average. §5(3)(b) should also be used in this situation, so that that one week is counted at the base pay amount from the preceding week.
- Two retirees had errors in deductions which led to errors in the three-year average salary. One member was receiving payments for G.L. c. 41, §111F (injured on duty pay) but had no deductions withheld even though that section says that payments under it are regular compensation. The other member received a payment for unused personal time that was subject to deductions- this is not regular compensation pursuant to 840 CMR 15.03 (3)(f).
- The other two retirees did not have three years of creditable service in the three-year average. One was a school employee who had pay from a fourth school year included in the salary. The other did not include enough paychecks to come out to three years of service.

Recommendation: The board should recalculate the allowances for these six retirees. When calculating the amounts owed to or by them, interest must be applied. The board should review all recent retirement calculations for similar errors.

Board Response:

The six Retirees are being corrected. I am currently re-calculating their monthly retirement allowance and adding interest when needed. The calculations will be sent in to the Auditor for a final check before payments are adjusted.

The Board was very concerned with the loophole that a person can take up to 1 year off unpaid and arbitrarily have pay added back to their calculations for retirement.

PERAC Response:

Although §5(3)(b) allows for up to one year of unpaid leave to be included in any three-year period for the purpose of determining the average annual rate of a member's regular compensation, the member mentioned in the finding had only one week of unpaid leave that should have been included in the retirement calculation.

FINAL DETERMINATION:

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

ANNUAL STATEMENTS (as submitted)

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2020	2019	2018	2017
Net Assets Available For Benefits:				
Cash	$55,528	$40,880	$9,839	($1,286)
PRIT Cash Fund	39,103	47,038	94,145	209
PRIT Core Fund	45,194,582	40,208,124	34,681,627	35,945,035
Accounts Receivable	325	0	0	0
Total	$45,289,538	$40,296,041	$34,785,612	$35,943,959
Fund Balances:				
Annuity Savings Fund	$10,053,801	$9,631,124	$8,884,187	$8,537,741
Annuity Reserve Fund	1,729,364	1,685,533	1,984,175	1,987,844
Pension Fund	30	(180,032)	(58,703)	(11,365)
Expense Fund	0	0	0	5,000
Pension Reserve Fund	33,506,342	29,159,416	23,975,954	25,424,739
Total	$45,289,538	$40,296,041	$34,785,612	$35,943,959

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance 2017	$8,554,719	$1,663,529	($109,214)	$0	$20,885,458	$30,994,492
Receipts	977,377	52,042	1,719,663	292,240	5,091,059	8,132,383
Interfund Transfers	(687,819)	687,819	546,778	5,000	(551,778)	0
Disbursements	(306,535)	(415,547)	(2,168,593)	(292,240)	0	(3,182,916)
Ending Balance 2017	8,537,741	1,987,844	(11,365)	5,000	25,424,739	35,943,959
Receipts	1,026,322	59,425	1,831,481	313,189	(1,013,750)	2,216,666
Interfund Transfers	(400,898)	400,898	440,035	(5,000)	(435,035)	0
Disbursements	(278,979)	(463,992)	(2,318,853)	(313,189)	0	(3,375,013)
Ending Balance 2018	8,884,187	1,984,175	(58,703)	0	23,975,954	34,785,612
Receipts	1,107,144	53,664	2,021,827	306,973	5,412,899	8,902,507
Interfund Transfers	(147,180)	147,180	229,436	0	(229,436)	0
Disbursements	(213,027)	(499,486)	(2,372,592)	(306,973)	0	(3,392,077)
Ending Balance 2019	9,631,124	1,685,533	(180,032)	0	29,159,416	40,296,041
Receipts	1,020,865	47,045	2,089,818	317,785	4,760,087	8,235,599
Interfund Transfers	(467,490)	468,022	412,629	0	(413,161)	0
Disbursements	(130,698)	(471,236)	(2,322,385)	(317,785)	0	(3,242,103)
Ending Balance 2020	$10,053,801	$1,729,364	$30	$0	$33,506,342	$45,289,538

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2020	2019	2018	2017
Annuity Savings Fund:				
Members Deductions	$940,145	$902,083	$883,483	$822,501
Transfers from Other Systems	61,897	193,775	130,291	139,428
Member Make Up Payments and Re-deposits	7,080	0	0	(9,391)
Member Payments from Rollovers	0	100	0	11,365
Investment Income Credited to Member Accounts	11,744	11,186	12,548	13,474
Sub Total	1,020,865	1,107,144	1,026,322	977,377
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	47,045	53,664	59,425	52,042
Sub Total	47,045	53,664	59,425	52,042
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	104,880	104,846	78,224	54,222
Received from Commonwealth for COLA and Survivor Benefits	11,192	14,530	28,506	10,499
Pension Fund Appropriation	1,973,746	1,902,451	1,720,251	1,654,942
Settlement of Workers' Compensation Claims	0	0	4,500	0
Recovery of 91A Overearnings	0	0	0	0
Sub Total	2,089,818	2,021,827	1,831,481	1,719,663
Expense Fund:				
Investment Income Credited to the Expense Fund	317,785	306,973	313,189	292,240
Pension Reserve Fund:				
Interest Not Refunded	1,367	51	3,297	430
Excess Investment Income (Loss)	4,758,720	5,412,848	(1,017,048)	5,090,630
Sub Total	4,760,087	5,412,899	(1,013,750)	5,091,059
Total Receipts, Net	$8,235,599	$8,902,507	$2,216,666	$8,132,383

ANNUAL STATEMENTS (as submitted) (Continued)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2020	2019	2018	2017
Annuity Savings Fund:				
Refunds to Members	$24,738	$31,988	$102,663	$73,440
Transfers to Other Systems	105,960	181,039	176,315	233,096
Sub Total	130,698	213,027	278,979	306,535
Annuity Reserve Fund:				
Annuities Paid	471,236	469,482	463,992	415,547
Option B Refunds	0	30,004	0	0
Sub Total	471,236	499,486	463,992	415,547
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	1,719,639	1,743,810	1,719,129	1,567,288
Survivorship Payments	99,718	121,753	132,316	140,831
Ordinary Disability Payments	40,181	39,403	38,636	37,879
Accidental Disability Payments	315,258	305,534	285,933	251,745
Section 101 Benefits	0	3,110	7,011	10,903
3 (8) (c) Reimbursements to Other Systems	136,395	144,451	117,394	139,394
State Reimbursable COLA's Paid	11,194	14,530	18,434	20,552
Sub Total	2,322,385	2,372,592	2,318,853	2,168,593
Expense Fund:				
Board Member Stipend	3,000	3,000	3,000	3,000
Salaries	60,287	57,489	56,141	52,079
Legal Expenses	0	0	742	0
Travel Expenses	0	2,395	2,661	2,352
Administrative Expenses	24,937	23,837	25,137	32,132
Actuarial Services	12,700	4,750	15,250	6,500
Accounting Services	0	0	0	1,653
Education and Training	0	1,740	1,280	900
Management Fees	196,195	194,016	190,081	175,497
Service Contracts	18,555	17,690	16,929	16,200
Fiduciary Insurance	2,111	2,056	1,968	1,928
Sub Total	317,785	306,973	313,189	292,240
Total Disbursements	$3,242,103	$3,392,077	$3,375,013	$3,182,916

ANNUAL STATEMENTS (as submitted) (Continued)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2020	2019	2018	2017
Investment Income Received From:				
Cash	$135	$519	$313	$138
Pooled or Mutual Funds	919,366	1,010,815	989,633	928,164
Total Investment Income	919,501	1,011,333	989,946	928,302
Plus:				
Realized Gains	1,973,553	1,877,233	1,660,408	1,517,559
Unrealized Gains	7,466,829	4,536,815	1,297,854	3,002,525
Sub Total	9,440,382	6,414,047	2,958,263	4,520,085
Less:				
Realized Loss	(261,516)	0	0	0
Unrealized Loss	(4,963,074)	(1,640,710)	(4,580,094)	0
Sub Total	(5,224,590)	(1,640,710)	(4,580,094)	0
Net Investment Income (Loss)	5,135,293	5,784,671	(631,885)	5,448,387
Income Required:				
Annuity Savings Fund	11,744	11,186	12,548	13,474
Annuity Reserve Fund	47,045	53,664	59,425	52,042
Expense Fund	317,785	306,973	313,189	292,240
Total Income Required	376,573	371,823	385,162	357,757
Net Investment Income (Loss)	5,135,293	5,784,671	(631,885)	5,448,387
Less: Total Income Required	376,573	371,823	385,162	357,757
Excess Income (Loss) To The Pension Reserve Fund	$4,758,720	$5,412,848	($1,017,048)	$5,090,630

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2020	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$55,528	0.1%
PRIT Cash Fund	39,103	0.1%
PRIT Core Fund	45,194,582	99.8%
Grand Total	$45,289,212	100.0%

For the year ending December 31, 2020, the rate of return for the investments of the Northbridge Retirement System was 12.75%. For the ten-year period ending December 31, 2020, the rate of return for the investments of the Northbridge Retirement System averaged 9.06%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Northbridge Retirement System was 9.46%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the ten-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 8.93%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.31%.

SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

SUPPLEMENTARY INFORMATION (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

SUPPLEMENTARY INFORMATION (Continued)

AMOUNT OF BENEFIT

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

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

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

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

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

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

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

DEFERRED VESTED BENEFIT

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

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $980.88 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 $980.88 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE (OPTION D)

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

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

SUPPLEMENTARY INFORMATION (Continued)

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

SUPPLEMENTARY INFORMATION (Continued)

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

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

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

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

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

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

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

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town 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:	Sharon Emerick		
Appointed Member:	Sharon Susienka	Term Expires:	02/28/2024
Elected Member:	John Meagher, Chairperson	Term Expires:	06/30/2024
Elected Member:	George Murray	Term Expires:	08/31/2026
Appointed Member:	Thomas S. Frieswyk	Term Expires:	07/31/2026

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

SUPPLEMENTARY INFORMATION (Continued)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2022.

The actuarial liability for active members was	$26,760,015
The actuarial liability for inactive members was	1,414,814
The actuarial liability for retired members was	29,798,606
The total actuarial liability was	$57,973,435
System assets as of that date were (actuarial value)	48,788,262
The unfunded actuarial liability was	$9,185,173
The ratio of system's assets to total actuarial liability was	84.2%
As of that date the total covered employee payroll was	$9,925,597

The normal cost for employees on that date was	9.4% of payroll
The normal cost for the employer including expenses was	6.9% of payroll

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

Investment Return:	7.0% per annum
Rate of Salary Increase:	Varies by group and 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)
01/01/2022	$48,788,262	$57,973,435	$9,185,173	84.2%	$9,925,597	92.5%
01/01/2020	$39,023,301	$53,585,594	$14,562,293	72.8%	$9,308,713	156.4%
01/01/2018	$34,349,637	$49,720,811	$15,371,174	69.1%	$8,751,685	175.6%
01/01/2016	$30,343,788	$44,741,739	$14,397,951	67.8%	$8,505,675	169.3%
01/01/2014	$25,886,903	$40,053,510	$14,166,607	64.6%	$8,222,037	172.3%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Retirement in Past Years										
Superannuation	7	8	4	6	5	2	7	5	3	6
Ordinary Disability	0	0	0	0	0	1	0	0	0	0
Accidental Disability	2	0	0	1	0	0	0	0	0	0
Total Retirements	9	8	4	7	5	3	7	5	3	6
Total Retirees, Beneficiaries and Survivors	108	112	109	113	115	112	113	115	113	111
Total Active Members	207	216	204	203	211	206	211	218	214	203
Pension Payments										
Superannuation	$1,107,138	$1,233,136	$1,281,555	$1,347,781	$1,411,407	$1,457,710	$1,567,288	$1,719,129	$1,743,810	$1,719,639
Survivor/Beneficiary Payments	108,179	126,093	123,921	127,365	130,679	138,023	140,831	132,316	121,753	99,718
Ordinary Disability	27,904	28,324	28,744	48,401	36,394	37,132	37,879	38,636	39,403	40,181
Accidental Disability	249,682	234,997	226,281	224,938	237,748	240,520	251,745	285,933	305,534	315,258
Other	127,072	123,896	128,252	129,741	132,893	125,065	170,850	142,839	162,092	147,589
Total Payments for Year	$1,619,975	$1,746,446	$1,788,753	$1,878,226	$1,949,121	$1,998,450	$2,168,593	$2,318,853	$2,372,592	$2,322,385

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