

# ESSEX REGIONAL RETIREMENT SYSTEM

## 2020 ADMINISTRATIVE BUDGET AND SPENDING PLAN

December 30, 2019

### Board Members

Elected Member  
H. Joseph Maney  
Board Chair

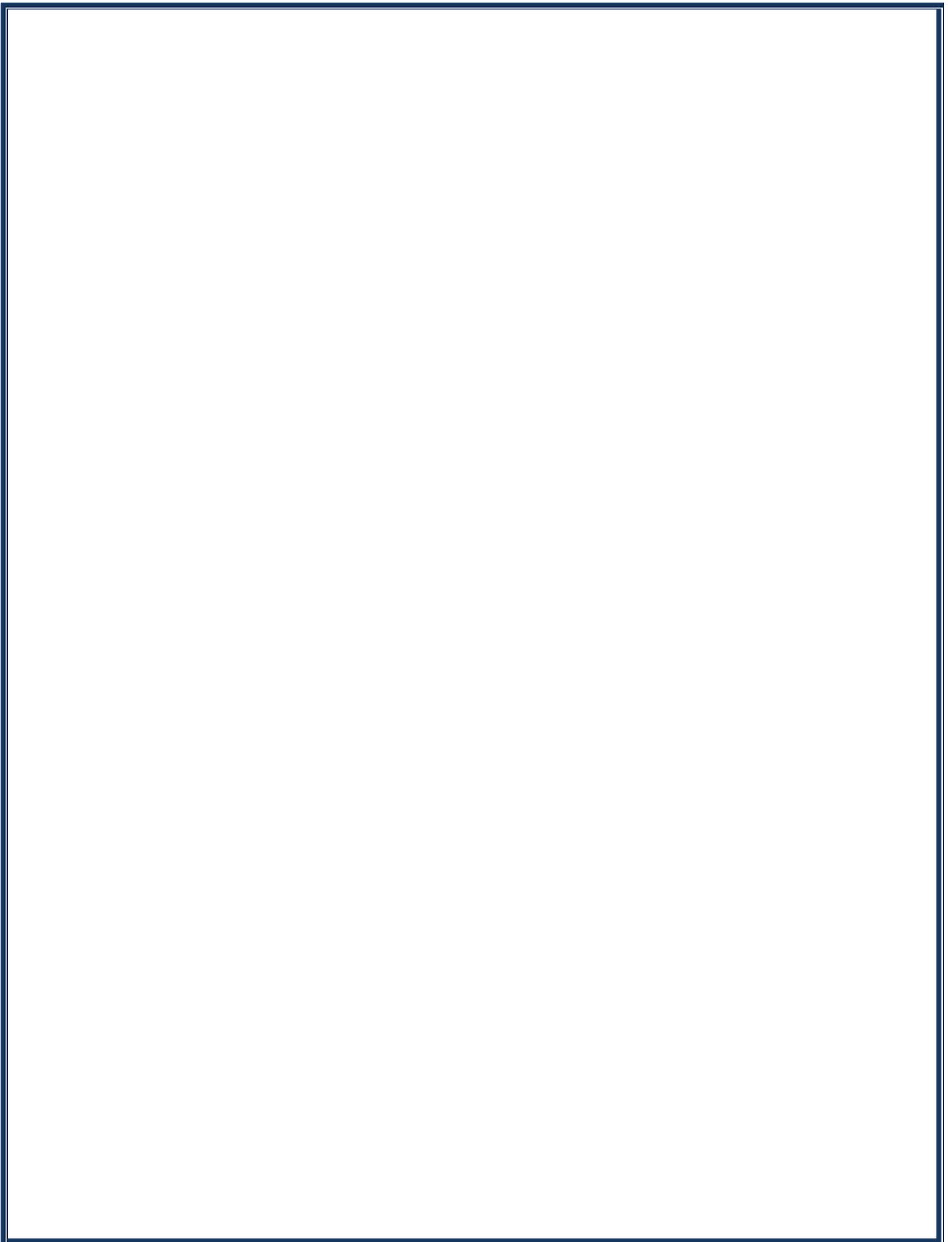
Elected Member  
Susan J. Yaskell  
Vice Chair

First Member  
Alan J. Benson

Second Member  
Kevin A. Merz

Fifth Member  
Vincent R. Malgeri

Charles E. Kostro  
Executive Director



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## EXECUTIVE DIRECTOR LETTER

Please find the final 2020 administrative budget submitted to the Essex Regional Retirement Board for approval at the meeting of December 30, 2019. The Essex Regional Retirement System (ERRS) operates on a calendar year budget cycle and the final approved budget will be effective as of January 1, 2020.

The total proposed 2020 administrative budget is \$1,055,901 which is \$2,554, or 0.2% *less* than the 2019 administrative budget. If the final 2020 budget is approved, ERRS will have *reduced* administrative expenditures by **7.3%** since 2011. The chart below shows the change in the ERRS budget year-to-year from 2011 to 2020.

Year	Budget	% Change
2011	1,138,899	
2012	1,086,524	<b>-4.6%</b>
2013	1,059,698	<b>-2.5%</b>
2014	1,047,664	<b>-1.1%</b>
2015	1,035,976	<b>-1.1%</b>
2016	1,063,081	2.6%
2017	1,059,575	<b>-0.3%</b>
2018	1,076,075	1.6%
2019	1,058,455	<b>-1.6%</b>
2020	1,055,901	<b>-0.2%</b>
Total Change 2011-2020		<b>-7.3%</b>

There have been several slight adjustments in the final budget compared to the draft presented to the Advisory Council in October. The total, final budget is \$96 less than the total budget presented to the Advisory Council. Five line-items have been adjusted and all were adjusted based on either the actual cost for 2020 becoming available after the Advisory Council meeting, or additional 2019 spending providing a better sense of the amount to use in 2020.

Please find on the chart below the change in each line-item in the final budget.

Line-Item	Difference	Reason
Monthly Condominium Expense	(600)	Final 2020 Condo Budget Received
Actuarial Consulting Fees	1,000	Actual 2020 Agreement Cost
Health, Life and Dental Insurance	(3,500)	Based on Q3 GIC Invoice
Retirement Appropriation	2,264	PERAC Appropriation Letter Received
Cleaning Services	740	Final Bids for Cleaning Services Received
Total	(96)	

The final 2020 administrative budget is the lowest proposed budget since 2015, and the third lowest administrative budget proposed in the past decade. It seems astounding, but the 2020 administrative budget is actually \$82,998 *less* than the 2011 administrative budget. During the same period that the administrative budget has been reduced by 7.3%, membership in the retirement system has increased by 6%. It should be further noted that over this same period of ten years, ERRS has maintained the same six positions on its staff and has not added a single new employee.

This budget includes a 2% cost-of-living adjustment and an additional amount for a performance-based pay increase for ERRS employees, exclusive of the Executive Director. This budget also includes funding for a longevity pay schedule approved by the Board. The total amount allocated for employee salaries, however, has gone down again, for the second consecutive year.

At some point, obviously, this downward trend must end. The rising operating costs facing the retirement system, the increased demands on staff to comply with new reporting and regulatory requirements, the increased number of members who we must serve, and the desire to retain qualified and experienced staff, is going to necessitate a change in our budgeting philosophy. For the time-being, however, I am very proud to lead a staff that continues to provide quality retirement services and administration in the face of challenging financial limitations.

Thank you.

Charles E. Kostro  
Executive Director

## **INTRODUCTION AND BACKGROUND**

The Essex Regional Retirement System (ERRS) is one of 104 public retirement systems in the Commonwealth of Massachusetts and is a member of the Massachusetts Association of Contributory Retirement Systems (MACRS). Retirement systems in the Commonwealth are governed by Chapter 32 of the General Laws, which sets out the requirements by which systems must operate, as well as determining the eligibility and benefits for members and retirees. The Public Employee Retirement Administration Commission (PERAC) is the state oversight agency for local and regional retirement systems throughout Massachusetts.

Membership in the ERRS is mandatory immediately upon the commencement of employment for all non-teaching permanent, full time employees. In order for a part-time employee to be eligible for membership in ERRS, the individual must be permanently employed twenty or more hours per week by a single member unit of the system and is required by statute to receive at least \$5,000 in wages annually. The retirement system considers permanently employed to mean that the individual is guaranteed twenty hours of regular compensation each and every week.

Any elected official who earns at least \$5,000 in wages may elect to become a member of the retirement system within ninety days of election. Upon becoming a member, an elected official must maintain the status of receiving \$5,000 in wages annually to continue contributing to the retirement system and accruing creditable service.

ERRS was founded as part of Essex County government in 1937 and became a regional retirement system after the abolition of county government under changes made to Chapter 34B, Section 16, in 1996. Massachusetts General Law (MGL) Chapter 131 of the Acts of 2010 established the new Essex Regional Retirement System.<sup>1</sup> A new Board was created under this legislation to oversee the retirement system. The terms of office for the new Board members began in December of 2010. A new Executive Director was hired in March of 2011.

ERRS is governed by a five-member Board who establish the policies under which the retirement system operates. Board members also approve all financial transactions, including the approval of retirement benefits to members. Board members are appointed or elected as specified by MGL Ch. 34B, Section 19A for terms ranging from three to five years.

Current ERRS Board members are:

First Member:	Alan J. Benson	Term Expires: 12/01/2020
Second Member:	Kevin A. Merz	Term Expires: 12/01/2021
Elected Member:	Susan J. Yaskell	Term Expires: 12/01/2022
Elected Member:	H. Joseph Maney	Term Expires: 12/01/2022
Fifth Member:	Vincent R. Malgeri	Term Expires: 12/12/2020

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<sup>1</sup> Chapter 131 of the Acts of 2010 added Section 19A to Chapter 34B of the Massachusetts General Laws.

The day-to-day operations of the retirement system are managed by the Executive Director. The legislative body for the retirement system is an Advisory Council consisting of full-time treasurers or other qualified officials of the member units. The Advisory Council meets twice annually and is responsible for supervising and certifying the procedures involved in the election of members to the retirement board.

As of December 31, 2018, the retirement system had 1,858 retirees and beneficiaries, 2,774 active participants and 1,212 inactive participants with a vested right to retirement benefits or to receive a refund of their contributions.

By statute, a member may earn a retirement allowance up to a maximum of 80% of a member's highest three-year or five-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Group 4 consists of police officers, firefighters, and other public safety positions.<sup>2</sup>

A superannuation (or so-called regular) retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service if the member was hired after 1978 and if classified in Group 1 or Group 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with ten years of service if in Group 1, 55 years of age with ten years of service if in Group 2, and 55 years of age if hired prior to 1978 or if classified in Group 4.<sup>3</sup>

The investment of the retirement system's funds is the responsibility of the Board. ERRS Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The MACRS program for ERRS provides \$50,000,000 fiduciary protection for Trustees and employees, as well as a \$1,000,000 fidelity policy for crime coverage.

Approximately 98% of ERRS' investments are in Pension Reserve Investment Trust (PRIT) Fund. The PRIT Fund is administered by the Pension Reserves Investment Management (PRIM) Board. Approximately 2% of the System's funds are invested in pooled alternative investments or reside in cash funds.

The most recent full valuation of the retirement system was completed in 2018. As of January 1, 2018, the actuarial accrued net liability of the system is \$393.5 million. On an actuarial basis, the funded ratio of the retirement system is 55.40%.

The Board has set the assumed rate of investment return at 7.50% with a full funding target date of 2035.

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<sup>2</sup> Massachusetts General Law Chapter 32, Section 3 provides that officers and inspectors of the department of state police are assigned to Group 3.

<sup>3</sup> Please note that you must have performed the duties of the Group 2 or 4 position for at least 12 months immediately prior to termination or retirement.

The funds of the retirement system are held within six accounting categories. These six funds are:

1. Annuity Savings Fund – Contains all member contributions allocated to each individual member's account. These funds pay for a portion of each retiree's pension benefit.
2. Annuity Reserve Fund – Contains the investment income that is credited to this fund. These funds also contribute to the payment of a retiree's benefit.
3. Pension Fund – Contains the funds paid through the annual appropriation, 3(8)(c) reimbursements received by ERRS and other reimbursements and settlements. This fund contributes to the payment of a retiree's benefit that is not funded by the Annuity Savings Fund.
4. Military Service Fund – Contains monies paid by units for retirement credit earned by employees serving in the military.
5. Expense Fund – Contains the investment funds credited to pay administrative expenses of the retirement system.
6. Pension Reserve Fund – Contains ERRS investment income monies and is used to support annual shortfalls, if any, in the Pension Fund.

ERRS files each year an Annual Statement of Financial Condition with PERAC. The annual statements filed by the retirement system are available on-line in the Fiscal Reports section of the ERRS website at [www.essexregional.com](http://www.essexregional.com).

ERRS has contracted with Powers & Sullivan to conduct annual audits of the retirement system. Powers & Sullivan audits are also available on the Fiscal Reports page of the ERRS website.

The ERRS annual spending plan presented here is separated into two general sections. These two sections are the (1) administrative budget and (2) the estimated spending on non-discretionary accounts. Administrative costs include all personnel, contracted professional services, legal, building and administrative expenses. Non-discretionary costs are those expenses ERRS is mandated by law to pay, or whose costs are calculated on a basis points (bps) basis depending on the amount of assets under control at the time of billing. A retirement system has no control over the payment of benefits, or payments required by statute, or fees based on a bps calculation as stated in a fund agreement negotiated years earlier. These types of transactions include retirement benefit obligations, retirement benefit allocations computed under Massachusetts General Law Chapter 32, Section 3(8)(c) and payable to other retirement systems, the refund or transfer of member accounts, and investment manager fees.

## 2020 ADMINISTRATIVE BUDGET

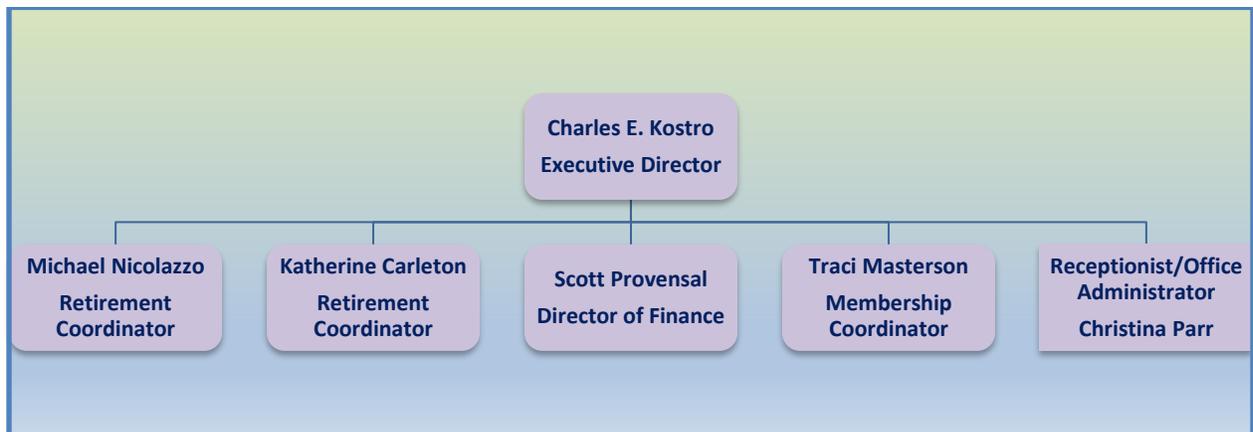
### SALARIES

#### Board Stipend

Board members are paid an annual stipend of \$4,500 which is paid out in twelve equal, monthly installments. The stipend was increased from \$3,000 to its current amount of \$4,500 by a vote of the Advisory Council on April 30, 2014. This is maximum amount permitted by law for a retirement board member stipend, so there is no increase in this line-item for 2020.

#### Employee Salaries

ERRS staff consists of six employees. The Executive Director is responsible for the day-to-day operations of the retirement system. The Director of Finance is responsible for the management of the retirement system's financial accounts. Two Retirement Counselors process retirement applications and service purchase requests. One of the Retirement Counselors also manages the annual earnings reporting process for retirees and the other Retirement Counselor processes the monthly refund warrant. The Membership Coordinator is responsible for posting the monthly deduction reports and enrolling new members. The Receptionist/Office Administrator greets visitors to the ERRS offices, answers phones, processes mail, manages vendors and supplies, and serves as the board secretary. The chart below shows the people and their positions at ERRS.

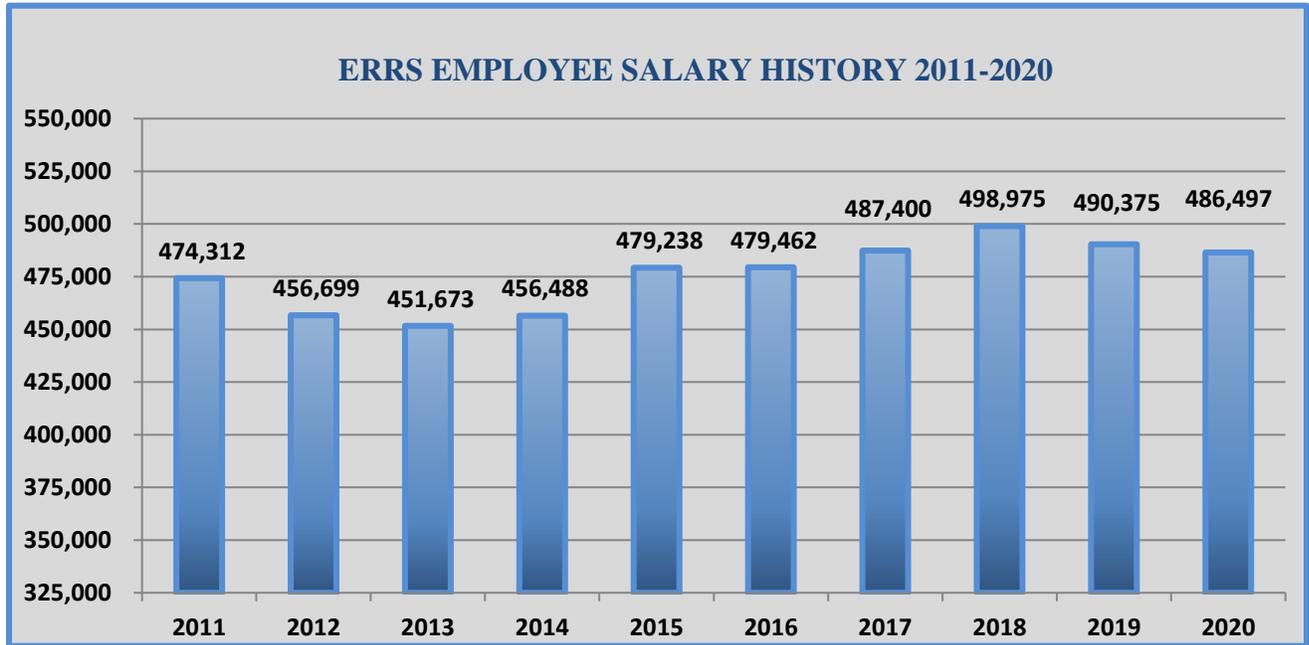


The 2020 ERRS budget request for employee salaries is \$486,497. This is a 0.8% *decrease* in the overall employee salaries line-item compared to the 2019 budget. In the last three years, the salary budget has increased or decreased each year as follows:

2018 Employee Salary Increase =	2.4%
2019 Employee Salary Increase =	<b>-1.7%</b>
2020 Employee Salary Increase =	<b>-0.8%</b>

In 2011, the ERRS employee salary budget was \$474,312. The total growth in employee salaries in the nine years from 2011 to the requested amount in 2020 has been a paltry \$12,186. This is a total increase in spending on employee salaries of 2.6% over nine years, or an average increase in *total* employee salaries of \$1,354 per year, or 0.3%. The chart below shows ERRS employee salaries each year from 2011 to 2020.

**EMPLOYEE SALARY BUDGET  
2011 - 2020**



As with the 2019 administrative spending plan, the 2020 budget includes a 2% Cost-of-Living Adjustment (COLA) for ERRS employees, as well as a \$3,000 sub-line-item for performance-based merit increases. The guidelines for awarding the COLA and the performance-based merit increases will also be the same as they were in 2019.

The guidelines first instituted last year require that any new employee, or any current employee who has been promoted to a new position, must successfully complete their six-month probationary period prior to receiving the COLA increase. (The COLA increase is granted on January 1<sup>st</sup> – a new employee must successfully complete at least six months of employment to be eligible for a COLA increase and cannot receive a COLA increase until six months from their hire date.) Also, any new employee, or newly promoted employee, must complete at least one full year in their position before they are eligible for any merit-based pay increase.

The award of the performance-based merit increases will also be capped per employee. For example, a top performing employee receiving the highest possible rating will receive a maximum of \$600. Other employees, depending on their performance rating, would then receive merit increases proportional to their performance. For instance, an employee who is above average in

their performance might receive \$500, compared to the employee whose performance was excellent and who received the \$600 maximum.

Implementing a per employee cap on the performance-based merit increases guarantees that no employee would receive a disproportional share of the funds. Performance-based merit increases are provided only after the employee has received an annual performance review conducted by the Executive Director.

These limitations mean that the maximum increase any employee can receive in 2020 will be the 2% COLA plus \$600. (The Executive Director is limited by agreement to a 1.5% annual pay increase.)

These guidelines will avoid the occurrences in the past where some employees went nearly two years without any pay adjustment because they were hired early in the calendar year, while also maintaining the Board’s longstanding goal of rewarding exceptional performance. This may be helpful in retaining existing employees and preserving stability among the staff.

The salaries budget by line-item is below:

Salaries	2018 Budget	2019 Budget	2020 Proposed	% Change	\$ Change
Board Stipend	22,500	22,500	22,500	-	0.0%
Employee Salaries	498,975	490,375	486,497	(3,878)	-0.8%
<b>Subtotal</b>	<b>521,475</b>	<b>512,875</b>	<b>508,997</b>	<b>(3,878)</b>	<b>-0.8%</b>

**LEGAL EXPENSE**

ERRS has employed two law firms since 2010. The Law Offices of Michael Sacco provides legal services on retirement matters under Massachusetts General Law (MGL) Chapter 32. Murphy, Hesse, Toomey & Lehane provided legal services on management issues, including Open Meeting Law compliance and personnel matters. Both firms were hired in 2010 and were rehired after a competitive procurement process was completed in 2015.

In recent years, legal spending has been focused primarily on retirement matters, such as the application of MGL Chapter 32, the adaption of ERRS policy and practices to new court or administrative law decisions, and the processing of disability applications.

Murphy, Hesse, Toomey & Lehane (MHT&L) remain under contract with ERRS, although their services have not been necessary in recent years. As they remain under contract with ERRS, they are annually requested to confirm any outstanding legal matters to our independent auditor. MHT&L bills ERRS for responding to this required inquiry from the auditors, although the bill is typically less than \$200. In 2019, the amount billed was \$125 dollars and this is the amount included in the 2020 administrative budget. The original five-year agreement with MHT&L expires in 2020 and there does not appear to be any reason to extend it. Therefore, this should be the last year in which MHT&L require any funding.

The Law Office of Michael Sacco currently furnishes all legal services to ERRS. Based on spending on legal services through 2018, as well as legal spending in recent years, no additional funds for legal expense is requested in 2020. The 2020 budget for the Law Office of Michael Sacco remains at \$75,000. The agreement for the provision of legal services with the Law Office of Michael Sacco expires in June of 2020, but the Board has the option to extend the agreement for another two years. The 2020 administrative budget assumes that the Board will extend this agreement.

The other expense line-item in this section funds advertisements for procurements. There are only two agreements whose end dates are in 2020. One is for legal services. However, it will be recommended that one of the two legal services agreements be terminated, and the other be extended for an additional two years as permitted by law. Should the Board concur with these this recommendation, there will be no need to advertise for legal services. The other contract is for website support services and must be re-bid in 2020, and an estimated amount is allocated to this line-item to fund a single procurement.

The legal expense budget by line-item is below:

Legal Expense	2018 Budget	2019 Budget	2020 Proposed	\$ Change	% Change
Michael Sacco, Attorney at Law	80,000	75,000	75,000	-	0.0%
Murphy, Hesse, Toomey and Lehane	-	200	125	(75)	0.0%
Other Legal Expense	1,500	1,500	1,000	(500)	-33.3%
<b>Subtotal</b>	<b>81,500</b>	<b>76,700</b>	<b>76,125</b>	<b>(575)</b>	<b>-0.7%</b>

### **MEDICAL RECORDS EXPENSE**

Medical Records Expense generally pays for pre-employment physicals for newly hired employees. Expenses in this line-item tend to be minimal, although when there is turnover in personnel, the expenditures for this item will spike. ERRS is budgeting enough funds for one pre-employment physical in 2020, which typically costs \$175.

The medical records budget by line-item is below:

Medical Records Expense	2018 Budget	2019 Budget	2020 Proposed	\$ Change	% Change
Medical Records Expense	200	200	175	(25)	-12.5%
<b>Subtotal</b>	<b>200</b>	<b>200</b>	<b>175</b>	<b>(25)</b>	<b>-12.5%</b>

### **FIDUCIARY INSURANCE**

Fiduciary liability coverage ensures trustees and staff members who oversee retirement systems and public employee pension funds against violations of their fiduciary responsibilities. In the private sector, any corporation with similar assets to a retirement plan has similar coverage. In relative measure to the size of the fund, the cost of this coverage is small. The cost also depends

on the size of the total fund, not just those assets invested directly by the system. Purchasing fiduciary insurance is also considered to be a prudent act on the part of the Board.

ERRS Board members and employees are bonded by a policy issued through the MACRS fiduciary insurance program. There are ninety-five retirement systems covered by these policies.

The term for the fiduciary and fidelity coverage is March 1 to March 1 of each year. The policy provides \$50,000,000 fiduciary protection for Trustees and employees, as well as a \$1,000,000 fidelity policy for crime coverage. Amity Insurance Agency, Inc., of North Quincy is the agent and the coverage is underwritten by Travelers Casualty & Surety, Co., National Union Fire Insurance, and Alterra American Insurance Co.

An analysis conducted as part of the 2019 administrative budget preparation showed that the annual increase in the fiduciary insurance premium over the last several budget years was an average of less than 3.0%. ERRS had typically anticipated 3.0% increases each year. However, in 2019, the cost of this insurance rose greater than 3% resulting in a small reserve fund transfer of \$441. Using the actual expense for Fiduciary Insurance in 2019, ERRS is requesting a 5.3% increase in this line-item in 2020, to \$31,900. The equates to a 6.9% increase over the original, budgeted amount from 2019.

One of the growing areas of concern for all business and government entities is cybersecurity. More and more local governments are the target of hackers and once a municipal security system is breached, the local government entity is at the mercy of cyber-criminals. Often times a ransom is demanded in exchange for a return of data. Local governments often pay this ransom as they would otherwise lose all of their data and be unable to function.

ERRS has taken steps to protect its data in recent years, although no system is perfect or one hundred percent secure. One area of recent discussion is whether cybersecurity insurance should be considered in order to protect government entities financially in case of a breach of security and a loss of data. There is no group cybersecurity available at reduced rates presently, and cost estimates for purchasing stand-alone protection exceed \$20,000. It is difficult to see how such insurance could be funded by ERRS without removing the current cap on spending increases in the administrative budget. But it may be prudent to consider whether to pursue cybersecurity insurance even if it means permitting an increase in the ERRS administrative budget.

The fiduciary insurance budget by line-item is below:

<b>Fiduciary Insurance</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Fiduciary Insurance	29,300	29,850	31,900	2,050	6.9%
<b>Subtotal</b>	<b>29,300</b>	<b>29,850</b>	<b>31,900</b>	2,050	6.9%

## **SERVICE CONTRACTS**

Although the total increases in the service contract line-item appears to be 6.1%, it is actually much smaller. There is very little change in this line-item, as the only significant increase is the annual contractual increase for service for the database software provided by Pension Technology Group (PTG). However, in the 2019 budget, a spreadsheet error did not include the \$2,000 for the Pension Benefit Information (PBI) contract. This contract provides notice to ERRS when a retiree passes so that payments to the deceased can be stopped at the earliest possible moment. This contract has been in effect for several years at ERRS and the elimination of this amount in the budget spreadsheet for 2019 was an error. The 2019 total budget for all service contracts should have been \$59,250, not \$57,250. The increase in 2020 is actually \$1,500, not \$3,500. There was no increase in the total 2019 budget as a result of this error, as the short-fall was funded through a reserve fund transfer.

The service contracts budget by line-item is below:

<b>Service Contracts</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Copy Machine Service Agreement	4,000	4,500	3,750	(750)	-16.7%
Postage Machine Lease	2,000	2,400	3,000	600	25.0%
Alarm System	500	400	400	-	0.0%
Storage Facility	4,500	4,500	4,750	250	5.6%
Web Hosting	2,700	2,750	2,750	-	0.0%
Database Software	41,350	42,700	44,100	1,400	3.3%
PBI Contract	2,000	-	2,000	2,000	100.0%
<b>Subtotal</b>	<b>57,050</b>	<b>57,250</b>	<b>60,750</b>	<b>3,500</b>	<b>6.1%</b>

## **CONDOMINIUM EXPENSE**

ERRS owns two office suites at the Hathorne Office Park located in Danvers, MA. These properties were purchased in 2000 for \$185,000 and \$190,000 apiece.<sup>4</sup> Hathorne Office Park is an office condominium complex and ERRS is a member of the Hathorne Condominium Office Park Trust. The office park is managed by Gemini Properties. As a member of the condominium trust, ERRS pays a monthly condominium fee. Charles Kostro, the ERRS Executive Director, is a member of the Board of Trustees for the condo association, and ERRS is the second largest tenant by square footage.

The trust which manages the condominium properties undertook two major projects in 2018 and 2019. One project was the replacement of a failing cooling tower. Problems with the cooling tower directly led to the flooding of roughly 50% of one of the office suites owned by ERRS. This

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<sup>4</sup> Deeds are recorded at the South Essex Registry of Deeds, BK 16422, PG 520, and BK 16422, PG 525.

necessitated a costly rug replacement project by the retirement system, although 90% of the cost of the replacement project was covered by insurance.

The second major project planned was a repaving and sidewalk replacement project for the parking lot. This project was originally scheduled for August of 2018, then it was delayed until the fall of 2018. It was later re-scheduled for December 2018 and the was eventually moved to 2019. Although it was unclear in December of 2018 if the paving project would ever take place, the parking lot was eventually repaved in the spring of 2019.

To fund the parking lot project, the condo board was approved for a loan. The trust’s capital fund also needed to be replenished. The cost of the loan and the replenishment of the capital fund will be paid by individual unit owners. Unit owners were given two payment options. The first was to pay a lump sum amount the second was to pay for these projects over a ten-year period at a fixed interest rate of 5.5%. Those unit owners that choose to pay over time will have this cost added to their monthly assessment. ERRS chose to make a lump sum payment, saving several thousand dollars. This lump sum payment was funded from the reserve fund in 2019.

The 2020 condo association budget shows no increase in the monthly condominium fee for ERRS. As ERRS paid its share of the two capital projects in a lump sum, no additional charge is added to the monthly fee. Therefore, the final administrative budget does not request any change in the monthly condominium fee budget for 2020.

In addition, a standard 3% increase for building insurance coverage is also included. The maintenance repair item, which funds small maintenance work contracted directly by ERRS, remains the same in 2020 as in 2019. Overall, the total Condominium Expense increase in 2020 is just 0.4%, or a mere \$100.

The condominium expense budget by line-item is below:

<b>Condominium Expense</b>					
Monthly Condominium Fees	18,000	18,150	18,150	-	0.0%
Building Insurance	3,400	3,150	3,250	100	3.2%
Maintenance and Repair Expense	1,000	1,250	1,250	-	0.0%
<b>Subtotal</b>	<b>22,400</b>	<b>22,550</b>	<b>22,650</b>	<b>100</b>	<b>0.4%</b>

**PROFESSIONAL SERVICES**

The professional services category includes the cost of contracts with vendors who provide actuarial services, IT consulting services and the annual audit of financial statements. This section of the budget formerly funded the Board Secretary position, which recorded the minutes of Board meetings and other ERRS public meetings. The Board Secretary position became vacant in 2016 and it was never filled. In 2019, the Receptionist/Office Administrator position was created and

filled, and this position now handles Board Secretary duties. This change has saved ERRS \$3,800 per year.

### **Actuarial Consulting Services**

ERRS completed a procurement for Actuarial Consulting Services in 2017 and hired Segal Company as its new actuary. Massachusetts retirement boards are required to perform an actuarial valuation study every two years. Segal Company completed the most recent valuation study in 2018. In the years in which no valuation study is conducted, the actuary must still provide a GASB 67 & 68 report, which shows the retirement system's net funding position (GASB 68) and the allocated share of the net pension liability among ERRS units (GASB 67). Under their price proposal, Segal Company was paid \$5,000 in 2019 to perform the GASB 67 & 68 work.

Another valuation study will commence in 2020. In accordance with their price proposal submission as part of the 2017 procurement, the cost of the 2020 valuation study will be \$31,000.

It should also be noted that the Board discussed requesting various funding scenarios from the actuary in 2019 which may result in further increased costs in the actuary consulting fees. In 2019, at the request of the Advisory Council, the Board inquired about a funding schedule in which the annual 3% COLA was eliminated until the retirement system was fully funded. Segal Company provided a cost estimate for the performance of this out-of-scope work that exceeded \$7,000. In response, the Board deferred this request until discussion begins on the January 1, 2020 valuation. However, Segal Company has indicated that performing an analysis of a no COLA funding schedule could still result in out-of-scope extra costs, depending on the nature of the Board's request. In addition, the discussion of eliminating the COLA resulted in other suggested cost saving measures, such as the elimination of the discount for early payment of the annual appropriation, which the actuary may be asked to include in the January 1, 2020 valuation study. The final 2020 administrative budget includes only the contractually required increase for the performance of the standard biennial valuation study.

### **IT Consulting Services**

In 2015, ERRS hired HIQ Computers of Medford, MA as its new IT Consultant under a three-year agreement. In 2018, the Board rejected the Executive Director's proposed RFP for IT consultant services and, instead, directed that HIQ be retained under a state contract. This was done and HIQ continues to serve as the IT consultant for ERRS. The current state contract has already been extended once, and it is anticipated that it will be extended again as the current June 30, 2020 expiration date approaches. Since HIQ is no longer under contract directly with ERRS, however, the retirement system cannot accurately estimate IT consulting fees for all of 2020. While it is assumed that HIQ's state contract will be extended, if it is not, ERRS will have to conduct the procurement it originally intended to conduct in 2018. Notwithstanding the uncertainty of HIQ's contract status, HIQ has proven to be a responsive and efficient vendor and without any definitive information of costs for this contract available, ERRS has chosen not to increase this line-item in 2020.

## Annual Audit

In 2012, ERRS was one of earliest retirement systems to retain a private CPA firm to conduct annual independent audits of its financial statements. In addition, the firm also reviews ERRS retirement and refund calculations and conducts a review of its management practices and daily operations. Later, the audit contract was amended to include the GASB 67 & 68 work.

The combination of the GASB 67 & 68 requirements, and PERAC's increasing reliance on private audit work (to address their backlog of audits), has resulted in more retirement systems using private audit firms. Since 2012, ERRS has contracted with Powers and Sullivan, LLC of Wakefield, MA, for the annual audit of ERRS financial statements. Powers and Sullivan is one of the premier audit firms conducting public retirement system audits in the Commonwealth and will continue under contract with ERRS until December 31, 2025. The annual cost of the audit is \$40,000 per year and this cost will remain unchanged for the duration of the current contract.

The total cost of the professional services line-item increases by \$26,000 (45.2%) in 2020, and this increase is entirely attributable to the required January 1, 2020 valuation study.

The professional services expense budget by line-item is below:

Professional Services					
Actuarial Consulting Fees	30,000	5,000	31,000	26,000	520.0%
IT Consulting Services	12,500	12,500	12,500	-	0.0%
Annual Audit	40,000	40,000	40,000	-	0.0%
<b>Subtotal</b>	<b>82,500</b>	<b>57,500</b>	<b>83,500</b>	26,000	45.2%

## EDUCATION AND TRAINING

This line-item funds registration costs for training conferences attended by ERRS Board members and staff.

Pension reform legislation passed in 2011 required that Board members receive eighteen hours of training during their terms of office. Board members must receive a minimum of three hours of training per year and cannot receive credit for more than nine hours of training in any one year. This statutory requirement is strictly enforced by PERAC and any Board member who fails to receive either the eighteen required credits per term or the required three credits per year, will be ineligible to serve on a retirement board. PERAC holds numerous training sessions throughout the year and provides a number of on-line training options. In addition, PERAC has worked with MACRS to provide training session credits at the annual spring and fall conferences.

Nearly all of the spending in this line-item pays the registration fees for the spring and/or fall MACRS conference (though in recent years, only the spring conference has been attended by ERRS Board members.) Until recently, several ERRS staff often attended the spring or fall

MACRS Conference and associated trainings. In fact, every three years MACRS offers three additional days of training geared just to retirement board staff. Attendance at these trainings and professional development conferences played a large role in properly training staff and enhancing their professional development, two achievements that benefit both the retirement system and the employee, and was a significant factor in turning ERRS around.

Beginning in 2018, however, MACRS Conference attendance and overnight travel (discussed later in this budget presentation) were limited to Board members only. In retrospect, this was a mistake and it is recommended that funds for staff attendance at MACRS be reinstated. This should improve employee performance and operational efficiency, and may be helpful with employee retention.

Further, the cost to register for the MACRS Conference has increased in the last two years. To accommodate the increased cost of MACRS Conference registration, and to provide sufficient funds to return to sending staff to professional development conferences, it is recommended that the Education and Training line-item be increased. The 2020 budget, therefore, suggests increasing this line-item by \$500 (20%) to \$3,000.

The education and training expense budget by line-item is below:

<b>Education &amp; Training</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Education and Training	2,500	2,500	3,000	500	20.0%
<b>Subtotal</b>	<b>2,500</b>	<b>2,500</b>	<b>3,000</b>	500	20.0%

## **ADMINISTRATIVE EXPENSES**

### **Health, Life and Dental Insurance**

ERRS employs eleven individuals, six full-time staff and five Board members. In 2011, ERRS was advised by the Group Insurance Commission (GIC), who provides health, dental, life and other insurance options to ERRS employees, that Board members are not eligible for insurance coverage.

Through 2015, only a limited number of full-time employees elected to participate in health insurance through the GIC. This limited participation in the GIC helped ERRS keep employee insurance costs low.

Beginning in 2016, more employees have become covered by the health benefits provided by ERRS. Based on the actual expenditures in 2017, ERRS proposed a \$8,000 increase in the Health, Life and Dental Insurance line-item for 2018. With the turnover of 33% of its staff in 2018, it was difficult to accurately budget for insurance costs for 2019. Based on actual costs through November of 2019, ERRS is requesting a \$13,500 (28.4%) reduction in this line-item.

## **Medicare Tax**

ERRS is requesting a small decrease of \$250 (3.4%) in this line-item in 2020. Although small, these types of small reductions are necessary in order to squeeze every possible savings from the administrative budget in order to keep overall spending capped or reduced year-over-year.

## **Unemployment Insurance Charges**

This line-item pays the state unemployment insurance tax, as well as other related state charges. ERRS is requesting a small increase for this line-item in 2020 based on actual expenditures in 2019, a year in which ERRS was short-handed for over six months. At full staff, there is likely to be a small increase in this payroll tax in 2020.

## **Workers Compensation Insurance**

Based on actual spending for workers compensation insurance in recent years, ERRS is not requesting any increase in this line-item for 2020. Although an audit of the ERRS payroll was conducted by the underwriter in 2019. While ERRS salaries declined in 2019, almost all audits in the past have resulted in upwards adjustments in the workers compensation insurance premium.

## **Postage**

The Board had discussed in past years increasing ERRS' communications with its retirees and members by supplementing its twice annual newsletter with smaller communications throughout the year. In anticipation of this initiative, ERRS requested an additional \$2,500 in the Postage line-item in 2019.

However, as ERRS was understaffed for most of the past eighteen months, the ability to generate additional communications to retirees and members was limited. Even at full-staff, ERRS is struggling to meet its daily operations. As noted elsewhere in this report, the number of members has grown since 2012 by 6%, while ERRS has had no increase in staff since 2011. Further, the budget limitations have resulted in cuts in recent years in supporting operations, such as the elimination of the Board Secretary. Additional compliance requirements have added more work and further strained staff. Given these limitations, it is not likely that the ERRS staff is going to be able to generate additional mailings to members.

Although, in 2019, the Executive Director did propose a universal mailing to distribute a new supplemental regulation guide. However, the Board rejected the idea of a universal mailing as too costly and inefficient, and the guide was simply posted to the website.

Given the staff limitations and the Board's reluctance to spend money on additional mailings, it is recommended that the postage line-item be reduced in the 2020 budget by \$2,500 or 20%.

## **Telephone/Internet**

Comcast is the ERRS telephone and internet service provider for its office phones and computers, and costs have been consistent for this service in recent years. Although costs in 2019 are fluctuating throughout the year, a small reduction of \$250 (5%) is proposed in this line-item. While a gamble, this small reduction is necessary to help off-set increased costs elsewhere in the budget.

## **Dues**

Over the years, ERRS has had to eliminate membership in every association other than MACRS. This line-item now only funds the annual MACRS dues. As a dues paying member of MACRS, conferences and other resources are available to ERRS at a reduced cost. However, last year the MACRS dues increased from \$400 to \$600. Correspondingly then, this line-item must also increase from \$400 to \$600 in the 2020 budget.

## **Newsletter Expense**

The production of the ERRS newsletter has been done in-house by ERRS staff since 2011. The only costs associated with the production of the newsletter are the printing and mailing costs, which is done by a private vendor. Based on actual costs to produce two newsletters in recent years, ERRS is not requesting any increase in 2020. It should be noted that prior to 2011, the cost to produce two newsletters per year was approximately \$60,000. Having ERRS staff produce two newsletters per year in-house has saved in the neighborhood of \$50,000 per year.

## **Office Supplies**

The office supply budget was reduced to \$12,500 several years ago. It is challenging to stay within that amount year after year, although ERRS was generally able to do so. However, sufficient office supplies are essential to the daily operations of the retirement system and after years of no increase, ERRS did increase this line-item by \$1,500 in 2019. Even with this increased amount, ERRS will be over-budget in this line-item in 2019. In the absence of additional increases in this line-item, ERRS will have to look at ways to reduce the costs of office supplies. One option is to reduce the amount of toner ordered each year, by reducing the number of printers in ERRS offices. As all ERRS printers have already been purchased, this will have to be done by phasing out printers as they become obsolete or no longer function. This process will have to be done over time where practicable.

## **Electricity**

ERRS' electricity is supplied by the Town of Danvers electric department. Electricity costs have risen modestly in recent years, but did not rise as much as ERRS anticipated in 2018. Therefore, the electricity line-item for 2019 was reduced by \$350. ERRS is requesting to maintain the same level of funding for this line-item in 2020.

## **Retirement Appropriation**

Like its member units, ERRS pays an annual assessment for its share of the pension system's cost. This is not a cash payout but the assessment is recorded on the ERRS balance sheet.

In recent years, PERAC has questioned whether an appropriation amount for the retirement system is appropriate since, as it is not a cash payment, the retirement system is actually losing money. Further, the units pay this cost eventually anyway, as the administrative cost of the retirement system is funded through investment earnings. This issue was also raised this year by the independent auditors as part of the 2018 financial audit.

Based on the feedback received at the fall 2018 Advisory Council meeting, the Board voted to notify PERAC that ERRS will revise the administrative expense assumption with the next valuation by eliminating the retirement system appropriation beginning with Fiscal Year 2022. But for the time-being, the retirement appropriation will remain as part of the administrative budget.

PERAC submitted its Fiscal Year 2021 (FY2021) appropriation letter to ERRS in early December. The appropriation amount for ERRS was slightly higher than anticipated and a small adjustment was made compared to the amount in the draft budget submitted to the Advisory Council. As ERRS was short-handed again for six months of 2019, and as its salary survey total decreased in 2019, the retirement appropriation allocated to ERRS increases by only 3.2%. This is more than one half less than the 7.41% increase in the total appropriation.

### **Employee Payroll Services**

In 2011, ERRS contracted with Harpers Payroll Services to provide professional payroll and tax reporting services. ERRS conducted a competitive procurement for this service in 2016. Although six vendors took out proposals, only Harpers Payroll Services submitted a bid. However, the bid price was below the prior cost of this service, which permitted ERRS to upgrade its payroll software without any additional cost to its budget. ERRS is contemplating its next steps relative to rebidding this agreement in 2019, but it does not anticipate that costs will increase. Therefore, there is no increase requested in this line-item for 2020.

### **Election Expense**

ERRS is conducted an election for the third member and fourth member of the Board in 2019. These Board members are elected by all retirees and members of the retirement system. Election materials and ballots were sent to approximately 5,600 individuals. Although the administration of this election is handled by one staff member at ERRS, printing and mailing costs are unavoidable and are slightly \$10,000.

The only election scheduled for 2020, however, is for the First Member. This election is conducted by mail and only the Chief Executive of each unit may vote. This election is also handled in house by one staff member and all printing and mailing is done in-house. This reduces the election expense line-item by \$10,000. However, this reduction will not be available again in 2021, and based on the anticipated cost of the 2019 election, more than \$10,000 will have to be added to the administrative budget again in 2022.

### **Cleaning Services**

Competitive bidding has dramatically reduced the cost of cleaning services for ERRS. Long gone are the days of the \$173 an hour cleaning service, as ERRS has reduced this line-item from \$9,360 (2010) to \$3,000 in the 2019 budget. This is an astounding 68% reduction in cleaning costs, which has been achieved simply through the use of regular, competitive procurements.

In the fall of 2019, ERRS conducted another competitive procurement for office cleaning services. Sixteen companies took out proposals and three bids were received. The initial low bidder did not submit the required references and, as acceptable references were part of the Rule for Award, this bidder was disqualified. The second highest bidder was then deemed the winner.

Also, ERRS has not funded the annual carpet cleaning portion of the cleaning services contract in the past few years. This task has been funded in the final 2020 administrative budget. The new bid price and the addition of funds to support the carpet-cleaning portion of the contract adds \$740 to the total cost of this service in 2020.

The administrative services expense budget by line-item is below:

<b>Administrative Expenses</b>					
Health, Life and Dental Insurance	42,000	47,500	34,000	(13,500)	-28.4%
Medicare Tax	7,250	7,250	7,000	(250)	-3.4%
Unemployment Insurance Charges	750	750	900	150	20.0%
Workers Compensation Insurance	900	900	900	-	0.0%
Postage	10,000	12,500	10,000	(2,500)	-20.0%
Telephone/Internet	5,400	5,000	4,750	(250)	-5.0%
Dues	400	400	600	200	50.0%
Newsletter Expense	9,000	10,000	10,000	-	0.0%
Office Supplies	12,500	14,000	14,000	-	0.0%
Electricity	3,750	3,400	3,400	-	0.0%
Retirement Appropriation	127,500	123,330	127,264	3,934	3.2%
Employee Payroll Services	2,000	2,000	2,000	-	0.0%
Election Expense	-	10,000	-	(10,000)	100.0%
Cleaning Services	3,400	3,000	3,740	740	24.7%
<b>Subtotal</b>	<b>224,850</b>	<b>240,030</b>	<b>218,554</b>	<b>(21,476)</b>	<b>-8.9%</b>

## **FURNITURE AND EQUIPMENT**

This account funds furniture or equipment needs of the retirement system (computer purchases are allocated to the IT consulting line-item.) Other than purchasing new office chairs several years ago to replace worn, broken and torn chairs, ERRS has made no other upgrades to its office furnishings in years. No money was allocated to this line-item in 2018, and the \$2,500 approved for 2019 has thus far gone unspent. ERRS is requesting the same amount in 2020, just in case any broken furniture or equipment will need to be replaced.

The furniture and equipment expense budget by line-item is below:

<b>Furniture &amp; Equipment</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Capital Account	-	2,500	2,500	-	100.0%
<b>Subtotal</b>	-	<b>2,500</b>	<b>2,500</b>	-	100.0%

## **TRAVEL**

As mentioned elsewhere in this report, starting in 2018, MACRS Conference attendance and overnight travel were limited to Board members only. Staff was excluded from attendance at the MACRS Conference and no funds were approved for any other overnight travel for anyone other than Board members.

Notwithstanding the elimination of overnight travel for staff, the per person costs have increased since 2017. In 2017, for instance, five individuals from ERRS attended MACRS at an average per person cost of \$886. In 2018 and 2019, after the restrictions on staff travel to MACRS were instituted, the average cost per person over these two years was \$1,145, a cost increase of 29%. Even though less people were now approved for overnight travel, the travel budget was increased from \$4,300 in 2018 to \$6,500 in 2019.

The chart below shows the per person increase in cost for travel to the spring MACRS Conference in recent years.

<b>MACRS</b>	<b>#</b>	<b>Reg Fee</b>	<b>Hotel/Travel</b>	<b>Total</b>	<b>Per Person</b>	<b>Comments</b>
<b>2017</b>	5	1,500	2,932	4,432	886	4 Board Members; 1 Staff
<b>2018</b>	3	960	2,307	3,267	1,089	3 Board Members
<b>2019</b>	3	1,470	2,135	3,605	1,202	3 Board Members

Average Cost 2018-2019      1,145

Increase 2017 v 2018-2019      29%

Until 2018, several ERRS staff often attended the spring MACRS Conference and associated trainings. This played a large role in properly training staff and enhancing their professional development, two achievements that benefit both the retirement system and the employee. It is recommended, therefore, that we return to funding travel for staff to events such as MACRS. This

should improve employee performance and operational efficiency, and may be helpful in furthering employee retention.

In order to support travel for staff, and to address the increasing costs of Board member travel, a further increase in the 2020 budget is proposed. It is recommended that the travel line-item be increased by \$1,250 (19.2%) compared to 2019.

The travel expense budget by line-item is below:

<b>Travel</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Travel	4,300	6,500	7,750	1,250	19.2%
<b>Subtotal</b>	<b>4,300</b>	<b>6,500</b>	<b>7,750</b>	<b>1,250</b>	<b>19.2%</b>

### **RESERVE FUND**

In 2019, the Supreme Judicial Court (SJC) ruled against ERRS in a pension forfeiture case. The SJC ruling resulted in a payment of a retirement benefit retroactive to 2013. In addition, ERRS paid \$33,000 in interest on the retroactive benefit. According to PERAC accounting rules, interest payments such as the one referenced above, must be paid from the administrative budget and not from the Pension Fund. The SJC ruling, combined with a parking lot repaving project that was delayed into 2019, resulted in the entire \$50,000 reserve fund being expended in 2019.

Including 2019, however, the five-year average expenditure from the Reserve Fund is approximately \$35,000. Therefore, ERRS is recommending a reduction of \$10,000 in the 2020 budget. The 2020 Reserve Fund is set at \$40,000.

The reserve fund budget by line-item is below:

<b>Reserve Account</b>					
Reserve Fund	50,000	50,000	40,000	(10,000)	-20.0%
<b>Subtotal</b>	<b>50,000</b>	<b>50,000</b>	<b>40,000</b>	<b>(10,000)</b>	<b>-20.0%</b>

## **TOTAL ADMINISTRATIVE BUDGET**

The total administrative budget for 2020 is proposed at \$1,055,901, which is \$2,554 (0.2%) less than the administrative for 2019. The total budget and each individual line-item is below:

<b>Account</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change 2018 to 2019</b>	<b>% Change 2018 to 2019</b>
<b>Salaries</b>					
Board Stipend	22,500	22,500	22,500	-	0.0%
Employee Salaries	498,975	490,375	486,497	(3,878)	-0.8%
<b>Subtotal</b>	<b>521,475</b>	<b>512,875</b>	<b>508,997</b>	<b>(3,878)</b>	<b>-0.8%</b>
<b>Legal Expense</b>					
Michael Sacco, Attorney at Law	80,000	75,000	75,000	-	0.0%
Murphy, Hesse, Toomey and Lehane	-	200	125	(75)	0.0%
Other Legal Expense	1,500	1,500	1,000	(500)	-33.3%
<b>Subtotal</b>	<b>81,500</b>	<b>76,700</b>	<b>76,125</b>	<b>(575)</b>	<b>-0.7%</b>
<b>Medical Records Expense</b>					
Medical Records Expense	200	200	175	(25)	-12.5%
<b>Subtotal</b>	<b>200</b>	<b>200</b>	<b>175</b>	<b>(25)</b>	<b>-12.5%</b>
<b>Fiduciary Insurance</b>					
Fiduciary Insurance	29,300	29,850	31,900	2,050	6.9%
<b>Subtotal</b>	<b>29,300</b>	<b>29,850</b>	<b>31,900</b>	<b>2,050</b>	<b>6.9%</b>
<b>Service Contracts</b>					
Copy Machine Service Agreement	4,000	4,500	3,750	(750)	-16.7%
Postage Machine Lease	2,000	2,400	3,000	600	25.0%
Alarm System	500	400	400	-	0.0%
Storage Facility	4,500	4,500	4,750	250	5.6%
Web Hosting	2,700	2,750	2,750	-	0.0%
Database Software	41,350	42,700	44,100	1,400	3.3%
PBI Contract	2,000	-	2,000	2,000	100.0%
<b>Subtotal</b>	<b>57,050</b>	<b>57,250</b>	<b>60,750</b>	<b>3,500</b>	<b>6.1%</b>

<b>Condominium Expense</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Monthly Condominium Fees	18,000	18,150	18,150	-	0.0%
Building Insurance	3,400	3,150	3,250	100	3.2%
Maintenance and Repair Expense	1,000	1,250	1,250	-	0.0%
<b>Subtotal</b>	<b>22,400</b>	<b>22,550</b>	<b>22,650</b>	<b>100</b>	<b>0.4%</b>
<b>Professional Services</b>					
Actuarial Consulting Fees	30,000	5,000	31,000	26,000	520.0%
IT Consulting Services	12,500	12,500	12,500	-	0.0%
Annual Audit	40,000	40,000	40,000	-	0.0%
<b>Subtotal</b>	<b>82,500</b>	<b>57,500</b>	<b>83,500</b>	<b>26,000</b>	<b>45.2%</b>
<b>Education &amp; Training</b>					
Education and Training	2,500	2,500	3,000	500	20.0%
<b>Subtotal</b>	<b>2,500</b>	<b>2,500</b>	<b>3,000</b>	<b>500</b>	<b>20.0%</b>
<b>Administrative Expenses</b>					
Health, Life and Dental Insurance	42,000	47,500	34,000	(13,500)	-28.4%
Medicare Tax	7,250	7,250	7,000	(250)	-3.4%
Unemployment Insurance Charges	750	750	900	150	20.0%
Workers Compensation Insurance	900	900	900	-	0.0%
Postage	10,000	12,500	10,000	(2,500)	-20.0%
Telephone/Internet	5,400	5,000	4,750	(250)	-5.0%
Dues	400	400	600	200	50.0%
Newsletter Expense	9,000	10,000	10,000	-	0.0%
Office Supplies	12,500	14,000	14,000	-	0.0%
Electricity	3,750	3,400	3,400	-	0.0%
Retirement Appropriation	127,500	123,330	127,264	3,934	3.2%
Employee Payroll Services	2,000	2,000	2,000	-	0.0%
Election Expense	-	10,000	-	(10,000)	100.0%
Cleaning Services	3,400	3,000	3,740	740	24.7%
<b>Subtotal</b>	<b>224,850</b>	<b>240,030</b>	<b>218,554</b>	<b>(21,476)</b>	<b>-8.9%</b>
<b>Furniture &amp; Equipment</b>					
Capital Account	-	2,500	2,500	-	100.0%
<b>Subtotal</b>	<b>-</b>	<b>2,500</b>	<b>2,500</b>	<b>-</b>	<b>100.0%</b>

<b>Travel</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Travel	4,300	6,500	7,750	1,250	19.2%
<b>Subtotal</b>	<b>4,300</b>	<b>6,500</b>	<b>7,750</b>	<b>1,250</b>	19.2%
<b>Reserve Account</b>					
Reserve Fund	50,000	50,000	40,000	(10,000)	-20.0%
<b>Subtotal</b>	<b>50,000</b>	<b>50,000</b>	<b>40,000</b>	<b>(10,000)</b>	-20.0%
<b>Total Operating Expense</b>	<b>1,076,075</b>	<b>1,058,455</b>	<b>1,055,901</b>	<b>(2,554)</b>	-0.2%

## **SPENDING PLAN ESTIMATES FOR 2020**

### **INVESTMENT MANAGEMENT FEES**

ERRS pays its fund managers, including the PRIT Fund, for the management of its investments. Generally speaking, as assets grow, management fees will increase as well. It is not necessarily a negative for your investment management fees to increase, if it is the result of an increase in your overall assets.

Fees are paid to private fund managers in two ways. Some private fund managers bill quarterly for fees, while others withhold the fees from investment earnings. Although ERRS' private investment fees are declining rapidly as funds are liquidated and assets transferred to the PRIT Fund, some private manager fees must still be paid. As the amount of assets managed by private fund managers decreases, the line-item for Investment Management Fees can also decrease.

As assets move from the privately managed funds to the PRIT Fund, and as ERRS' assets managed by the PRIT Fund continue to grow, the fees charged by the PRIT Fund increase. This too is reflected in the estimated spending for this line-item in the 2020 budget. The increase in the fees paid to the PRIT Fund is based on the current assumed rate of investment return for ERRS, which is 7.5%.

The investment fee estimates by line-item is below:

<b>Investment Management Fees</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Investment Management Fees	150,000	100,000	75,000	(25,000)	-25.0%
PRIT Fund Management Fees	2,125,000	2,475,000	2,660,000	185,000	7.5%
<b>Subtotal</b>	<b>2,275,000</b>	<b>2,575,000</b>	<b>2,735,000</b>	<b>160,000</b>	<b>6.2%</b>

### **OTHER EXPENSE**

#### **Capital Calls**

The private investment fund agreements require ERRS to commit an amount of capital to each fund. This capital commitment is drawn down by the investment fund manager through a series of calls made during the investment period. As ERRS has not entered into any new privately managed funds in over a several years, and as nearly all the current privately managed funds are winding down, ERRS' capital call exposure has greatly decreased.

#### **3(8)(c) Payments**

These payments are made by ERRS to other units under the membership section of Chapter 32. The specific section of Chapter 32 requiring these payments is Section 3(8)(c) and the payments are normally referred to by referencing this section of the statute.

Under Chapter 32, Section 3(8)(c), whenever any retired member or beneficiary receives a pension or survivor's allowance from a pension system, and a portion of that benefit is attributable to another pension system, the system responsible for that portion of the benefit can be billed by the pension system administering the benefit. PERAC approves the allocation of the retirement benefit costs and these bills are distributed and payments are made in the first quarter of each year.

Beginning 2012, when ERRS hired a new Director of Finance, a laborious process began to straighten out the 3(8)(c) payments made by the retirement system. During this process, it was found that ERRS had been paying and billing other systems for years for members who had long since passed. Many other bills were paid without documentation. This process will be ongoing and there is a backlog of approximately \$1 million in undocumented 3(8)(c) bills from the State Retirement Board and others that needs to be resolved. In the meantime, these bills cannot be paid without proper documentation.

### **Refunds and Transfers**

This line-item tracks the amount refunded to former members of the retirement system who have resigned or otherwise left service. In addition, it includes the amounts transferred to another retirement system when a member leaves service at ERRS and becomes a member in another qualified public pension system. A member who separates from service with an employer unit of ERRS and becomes employed in another public retirement system in Massachusetts is required by law to have their service and deductions transferred to their new retirement system. The amount refunded or transferred reflects the amount of contributions made by the member during their employment plus regular interest. Regular interest is calculated each year by PERAC based on the interest paid by a select group of local banks.

### **Retirement Benefits**

This line-item reflects the retirement benefits paid to retirees, beneficiaries and survivors eligible for such benefits. Retirement benefits are paid on the last business day of each month. (ERRS also deducts the retirees share of their health insurance costs and issues payments to the member units as part of the pension payroll.) The retirement benefit payroll reflects the full benefit payment to the retiree, beneficiary or survivor, which includes their contributions from their annuity account as well as the retirement system's share of the benefit paid from the pension reserve account.

The other expense estimates by line-item is below:

<b>Other Expense</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>2020 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Capital Calls	50,000	150,000	75,000	(75,000)	-50.0%
3(8)c payments	3,400,000	3,400,000	3,250,000	(150,000)	-4.4%
Refunds and Transfers	3,510,000	3,000,000	3,750,000	750,000	25.0%
Retirement Benefit Payroll	43,400,000	47,950,000	49,000,000	1,050,000	2.2%
<b>Subtotal</b>	<b>50,360,000</b>	<b>54,500,000</b>	<b>56,075,000</b>	<b>1,575,000</b>	<b>2.9%</b>

## **QUESTIONS/COMMENTS**

If you have any questions or comments about the 2020 administrative budget, or on any retirement related issue, please do not hesitate to contact Charles E. Kostro, Executive Director, at (978) 739-9151, extension 105, or via email at [ckostro@essexrrs.org](mailto:ckostro@essexrrs.org).

If you have a question about the annual retirement appropriation or the processing of health insurance deductions, please contact Scott Provensal, Director of Finance, at (978) 739-9151, extension 123, or via email at [sprovensal@essexrrs.org](mailto:sprovensal@essexrrs.org).

For retirees or members of ERRS who have questions about retirement benefits or purchasing prior service, please contact Kathy Carleton, Retirement Counselor at (978) 739-9151, extension 104, or via email at [kcarleton@essexrrs.org](mailto:kcarleton@essexrrs.org), or Michael Nicolazzo, Retirement Counselor, at (978) 739-9151, extension 103, or via email at [mnicolazzo@essexrrs.org](mailto:mnicolazzo@essexrrs.org).

If a member has separated from service and has a question about refunding or rolling over their account, please contact Mr. Nicolazzo at the phone number or email above.

If you have a general question about the retirement system, you can contact the office via the general email at [info@essexrrs.org](mailto:info@essexrrs.org).

Retirees and members of the retirement system can review their account directly by using the Employee/Retiree Portal available on the ERRS website at [www.essexregional.com](http://www.essexregional.com). Retirees and members can also submit questions or comments via the Employee/Retiree Portal and responses will be sent directly to their email, typically within 24 business hours.

For individuals interested in receiving retirement system news directly to their email, they can sign up for alerts by going to the ERRS website ([www.essexregional.com](http://www.essexregional.com)) and registering their email address using the Sign Up for E-Alerts tab.

All ERRS agendas and meeting minutes are also posted to the retirement system's website at [www.essexregional.com](http://www.essexregional.com).