

ESSEX REGIONAL RETIREMENT SYSTEM 2017 ADMINISTRATIVE BUDGET

Board Members

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Charles E. Kostro
Executive Director

Advisory Council Budget Submission

September 28, 2016



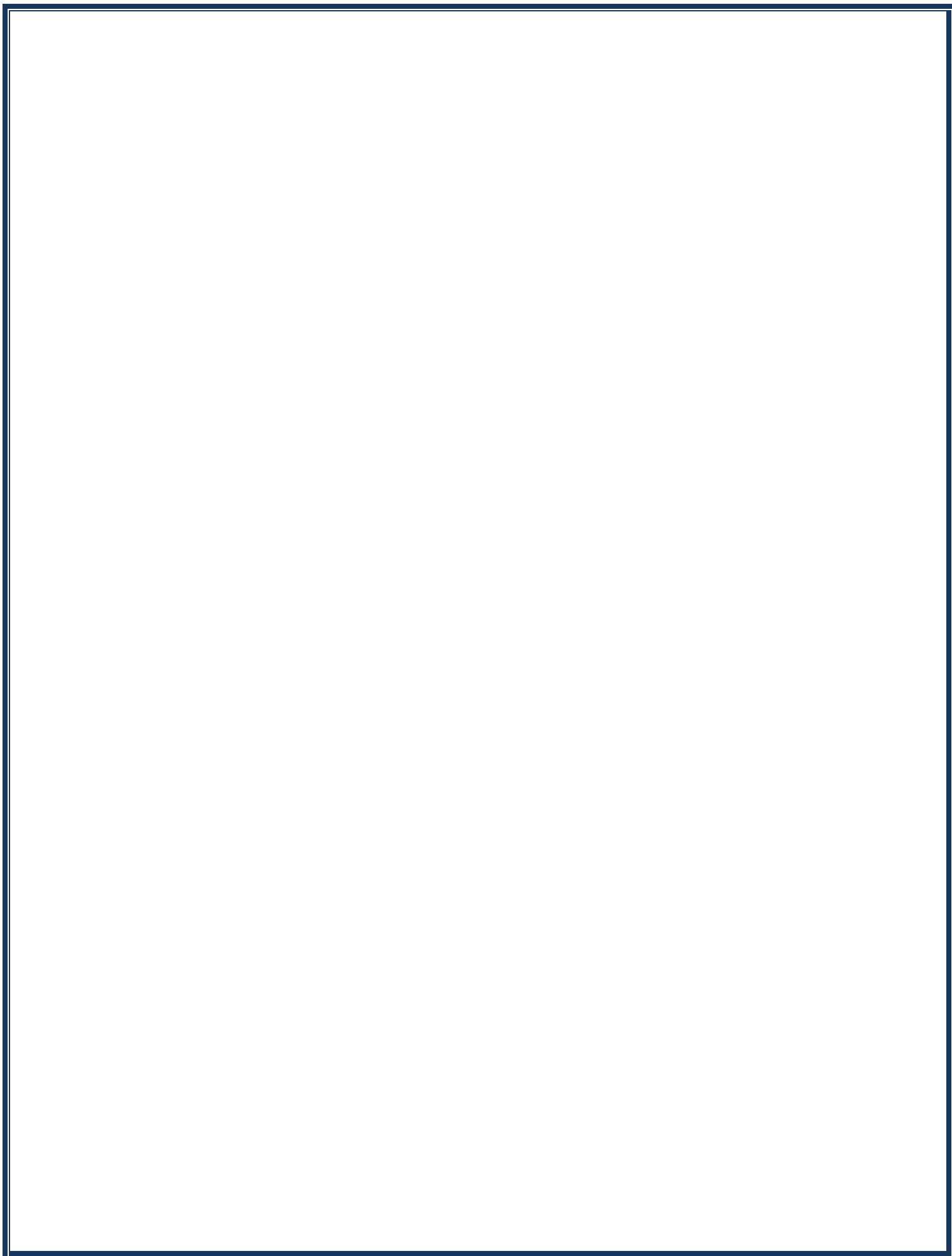


Table of Contents

<u>Executive Director's Message</u>	1
<u>Background</u>	6
<u>Line-Item Budget</u>	10
<u>Employee Salary Budget</u>	13
<u>Investment Consulting Fees</u>	16
<u>Legal Expense Budget</u>	16
<u>Medical Records Budget</u>	18
<u>Fiduciary Insurance Budget</u>	18
<u>Service Contracts Budget</u>	19
<u>Condominium Expense Budget</u>	19
<u>Professional Services Budget</u>	20
Actuarial Consulting Services	20
Board Secretary	22
IT Consulting Services	22
Annual Audit	23
<u>Education and Training</u>	23
<u>Administrative Expenses</u>	24
Health, Life and Dental Insurance	24
Medicare Tax	24
Unemployment Expense	25
Workers Compensation Insurance	25
Postage	25
Telephone/Internet	25
Election Expense	25
Newsletter Expense	26
Office Supplies	26
Electricity	26
Retirement Appropriation	26

Employee Payroll Services	27
Cleaning Services	28
Dues	28
<u>Furniture and Equipment</u>.....	28
<u>Travel</u>	28
<u>Reserve Fund</u>	29
<u>Total Administrative Spending Summary</u>	29
<u>Spending Plan Estimates for 2017</u>	30
<u>Investment Management Fees</u>	30
<u>Custodial Bank Fees</u>.....	30
<u>Other Expense</u>	31
Capital Calls	31
3(8)(c) Payments.....	31
Refunds and Transfers.....	32
Retirement Benefits	32
<u>Summary</u>.....	32
ERRS Supplemental Regulations	33
Selected Policies	36
ERRS By-The-Numbers Summary Page.....	48
ERRS Contact Information.....	49

EXECUTIVE DIRECTORS MESSAGE

This is the sixth budget that I have presented for approval to the Board of the Essex Regional Retirement System. This budget submission is slightly different from prior years as we have reordered and grouped the line-items to generally follow the same format as the disbursements section of the Annual Statement of Financial Condition filed each year with the Public Employee Retirement Administration Commission (PERAC).

I hope this new format will allow readers of our multiple financial reports to more easily compare data across reports and across years.

Since my first budget submission for 2012, we have been committed to maximizing our performance while controlling or reducing administrative costs. It has always been our view that since our administrative costs are funded from our investment assets, every dollar saved is the equivalent of a dollar of investment earnings. Our efforts to control or reduce administrative costs resulted in budgets from 2012 through 2015 that were less each year compared to the prior year. The 2016 budget was the first in which administrative costs increased over the prior year.

The increase in 2016 was due primarily to three items:

- A \$10,000 increase in annual financial audit cost as a result of the additional reporting required of retirement systems and municipalities under Governmental Accounting Standards Board (GASB) directives number 67 & 68.
- A \$10,000 increase for the election of the Third & Fourth Board members, which is required every three years.
- A \$10,000 increase in the capital account to fund an anticipated office move.

These three cost increases are mitigated in 2017. For instance, there is no change the cost of the annual audit this year; There will be no Third and Fourth Member election in 2017; And, ERRS has decided not to explore moving offices for the foreseeable future, eliminating the increase in capital expenditures.

However, it is also becoming clear that compliance with the GASB 67 & 68 accounting rules will continue to require additional work from our actuarial consultant, as well as our private accounting firm. The additional cost of the actuarial work required for GASB 67 & 68 is accounted for in the 2017 budget, and in the five year budget plan that is part of this submission. In addition, both the 2017 budget and the five year budget plan account for the completion of a valuation study in 2016, with valuation studies to also be in 2018 and 2020.

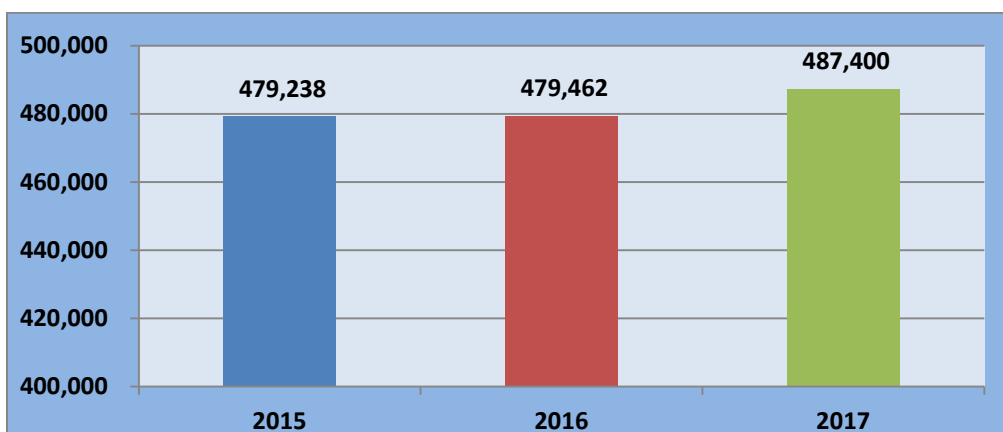
The 2017 budget also accounts for a potential 32% increase in health insurance costs, as more ERRS employees join the system's health insurance plan. ERRS has been fortunate from a budgetary standpoint that so few employees take part in the Group Insurance Commission (GIC) plans. But to account for the potential of new employees joining the GIC, or current employees signing up during open enrollment periods, ERRS recommending a series of steady increases in this line-item over the next several years.

After discussion with the Board at their meeting of August 22, 2016, the employee salary budget in 2017 is now planned to increase by 1.7%. This increase reflects multiple personnel moves in

2016 and funds the salary reserve line-item at \$6,000 with an additional \$500 set aside for potential overtime costs.

In 2015, ERRS established a salary reserve within its employee salary budget. ERRS has funded annual merit pay increases and matching offers to employees from this reserve line-item, which has kept the employee salary budget relatively stable over the last three years. For instance, from 2015 to the proposed 2017 budget, the ERRS employee salary line-item has increased only 1.7%. The chart below shows the employee salary budget from 2015 to 2017.

ERRS EMPLOYEE SALARY BUDGET 2015 – 2017



There are no other significant cost increases anticipated in the 2017 budget, and ERRS has no major initiatives or capital expenditures planned in 2017.

However, one area of concern is legal costs. The 2016 legal budget is likely to be over-expended for the second consecutive year. ERRS has not made any change in its legal structure during the last two years, nor has the hourly rate for legal services significantly increased.

But beginning in 2015 and continuing through to 2016, ERRS saw a record number of disability applications processed, all of which require the participation of legal counsel. Multiple disability applications have also been denied by the Board during this period, several of which have been appealed by the applicant resulting in additional litigation.

Further, litigation involving multiple pension forfeiture cases has also been on-going in 2015 and 2016. In fact, an analysis of selected monthly legal bills showed that disability and pension forfeiture cases were accounting for 45% to as much as 80% of the monthly legal costs.

Although the number of active disability applications has abated somewhat during 2016, the 2017 budget is recommending a 3.3% increase in legal expenses. This increase partially reflects a return of the legal budget to its prior year levels, as legal expenses were reduced in beginning in 2015, which reflected a four year trend when legal costs were always well below budget.

Therefore, even with the 3.3% increase in legal costs proposed in 2017, the total legal budget is still \$21,000 less than the legal expense request in the 2014 budget.

Overall, the total budget proposed for 2017 is \$7,445, or 0.7% less than the total administrative budget request for 2016. This will mark the fifth time in six years that ERRS has reduced the budget from the prior year. The chart below shows the changes in the budgets from 2012 to 2017.

**ERRS BUDGET DECREASES/INCREASES
2012 TO 2017**

Year	Budget	Change
2012	1,086,523	-4.6%
2013	1,059,698	-2.5%
2014	1,047,664	-1.1%
2015	1,035,976	-1.1%
2016	1,063,081	2.6%
2017	1,055,635	-0.7%

The overall decrease in administrative spending has been both significant and sustained over the last several years. For instance, compared to the 2011 budget of \$1,138,888.50, the 2017 budget represents a total reduction in administrative spending of 7.9%. As the chart above represents, this has been a sustained decline in spending over a six year period.

The reduction in administrative costs is even more dramatic when looking back further. For instance, the 2009 administrative budget was \$1,366,034. The proposed 2017 budget, therefore, represents a 23% reduction in the cost of administering the retirement system under the current Board.¹

In terms of actual spending, administrative costs have been reduced by even more. Actual expenditures in 2009 were \$1,235,910, compared to 2015, the last completed budget year, when actual expenditures were \$964,670. This is a 25% reduction in the cost to administer the retirement system since the transition to a new Board began in 2010.

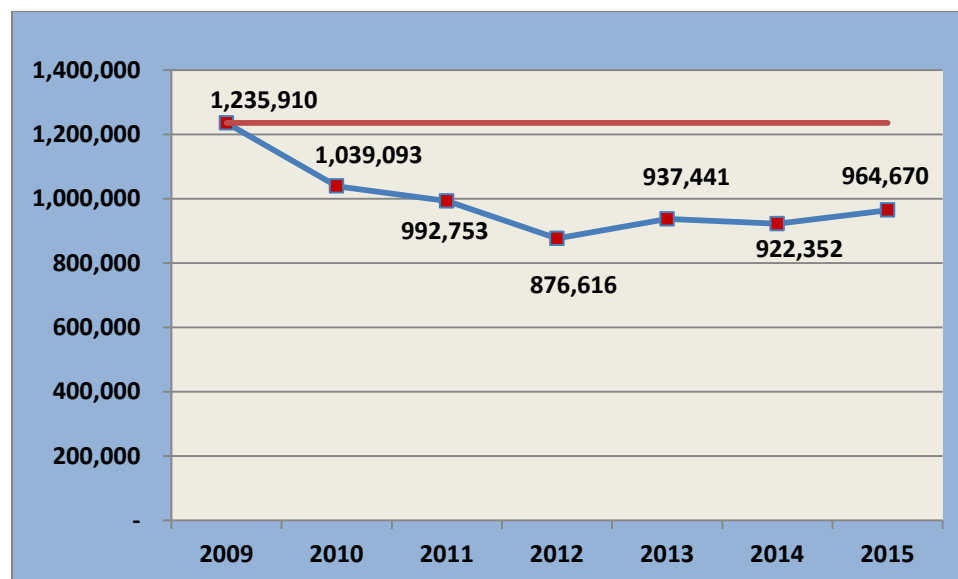
In fact, from 2007 through 2009, administrative expenses for the retirement system were never less than one million dollars. Under the current Board, from 2012 through 2015, administrative expenses have never been more than one million dollars. This is a dramatic reduction in the cost to administer the retirement system which has been sustained over a substantial period of time.

¹ 2009 was the last year prior to the enactment of Massachusetts General Law, Chapter 34B, Section 19A, which established the current structure of the ERRS Board.

Administrative costs are paid from the assets of the retirement system. So every dollar saved is the equivalent of a dollar of investment earnings. To put the cost control efforts of the current Board in perspective, if the cost of the retirement system in 2009 had simply stayed level, the retirement system would have spent a cumulative total of \$1.7 million more from 2010 to 2015.

The chart on page four shows actual spending from 2010 to 2015 compared with the level of spending in 2009.

**ADMINISTRATIVE COST SAVINGS
ACTUAL SPENDING
2009 - 2015²**



During this period of cost reductions, ERRS has also been adding services and improving management controls. For instance, since 2011 ERRS has added the following services:

- Purchased an Employee/Retiree web portal service which permits individuals to access their retirement account and perform their own retirement benefit estimate calculations at any time from the comfort of their own home.
- Restored the twice yearly retiree/member newsletter, which is now written in-house.
- Hired a new, third-party web hosting provider to improve the system's website so that timely information could be posted for retirees, members and the public.
- Selected a new database provider to upgrade the system's information and to improve the annual statements and reports provided to retirees and members.

² Actual spending figures are from the Annual Statement of Financial Condition for the years 2009 through 2015, and exclude for all years the payment of investment manager fees, custodial bank fees and the depreciation calculated on the office suites owned by ERRS.

- Implemented new office hours to insure that employees were available more often to meet and serve our retirees and members.
- Reorganized the retirement system's six person staff, creating a more flexible and responsive organization in order to improve services to our retirees and members.

In addition, ERRS has taken several steps to improve the management of the retirement system. These management improvements include:

- Hiring a private CPA firm to conduct annual audits of the system's financial reports to insure compliance and restore confidence in the management of ERRS' finances.
- Implementing twenty-five new policies and regulations to bring clarity to the system's rules and to insure that all similarly situated members are treated equally.
- Approving the system's first investment policy and first financial procedures and control policy to improve financial management of the retirement system's assets.
- Conducting more than fifteen separate procurements to insure that the maximize level of service was provided at the most competitive price.
- Establishing an electronic system for the Board meeting packets substantially reducing the system's paper and mailing costs.
- Replacing all computer workstations and installing a new main server. Hiring a professional IT consultant to oversee the computer network.
- Creating new position descriptions and the agency's first employee handbook to clarify responsibilities and to eliminate inefficiency and abuse.
- Coordinating with our legislative delegation and state oversight agency to successfully pass legislation that secured \$4.1 million in funding for a previously unfunded liability.

It will be a difficult challenge in the years ahead to continue to reduce administrative costs each year and still maintain or improve services. To prepare for that challenge, ERRS has developed a five year spending plan, which is included as part of this budget submission.

I believe there are few entities, public or private, which could match the performance of ERRS over the last six years. The retirement system has been entirely transformed and, by nearly every measure, its performance significantly improved. Further, a variety of new services and improvements have been implemented and yet the administrative cost of the retirement system has been significantly reduced.

I hope you will find this 2017 budget submission to be a clear and comprehensive explanation of the cost and operations of the Essex Regional Retirement System.

Sincerely,



Charles E. Kostro
Executive Director

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. Part-time employees must be permanently employed twenty (20) or more hours per week by any member unit and receive at least \$5,000 in wages. Upon becoming a member of ERRS, a member must maintain the status of being permanently employed 20 or more hours per week and earn \$5,000 annually in wages to continue contributing to the retirement system and accruing creditable service.

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. Under Massachusetts General Law (MGL) Chapter 131 of the Acts of 2010, the Legislature established the new Essex Regional Retirement System.³ 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: 12/01/2017
Second Member:	Kevin A. Merz	Term Expires: 12/01/2018
Elected Member:	Susan J. Yaskell	Term Expires: 12/01/2016
Elected Member:	H. Joseph Maney	Term Expires: 12/01/2016
Fifth Member:	Vincent R. Malgeri	Term Expires: 12/12/2020

The day-to-day operations of the System are managed by the Executive Director. The legislative body for the System is an Advisory Council consisting of full-time treasurers or other qualified

³ Chapter 131 of the Acts of 2010 added Section 19A to Chapter 34B of the Massachusetts General Laws.

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, 2015, the System had 1,758 retirees and beneficiaries, 2,739 active participants and 1,068 inactive participants with a vested right to retirement benefits or to receive a refund of their contributions.

The retirement system provides for retirement allowance benefits 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.⁴

Members become vested after ten years of creditable service. A superannuation 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 4.⁵

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 93% 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 7% of the System's funds are invested in pooled alternative investments and pooled real estate funds.

As of the most recent valuation study of ERRS, the system was funded at a ratio of 48%.⁶

⁴ Massachusetts General Law Chapter 32, Section 3 provides that officers and inspectors of the department of state police are assigned to Group 3.

⁵ 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.

⁶ The most recently completed valuation study as of August 22, 2016 is dated January 1, 2014. Massachusetts General Law requires a valuation study to be completed every two years. There is presently underway a valuation study for ERRS that will be dated as of January 1, 2016.

ERRS manages six funds containing all of the retirement system assets. The six funds are summarized below:

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 2015 Annual Statement is available on-line in the Reports section of the ERRS website at www.essexregional.com. ERRS has contracted with Powers & Sullivan to conduct annual audits of the retirement system. Powers & Sullivan audits for 2012 through 2015 are also available on the Reports page of the ERRS website.

The ERRS annual spending plan 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 custodial bank and investment manager fees.

The proposed ERRS' administrative budget for 2017 totals \$1,055,635 and represents a 0.7% *decrease* in administrative spending compared to the 2016 budget. The total spending for investment management fees in 2017 is estimated to be \$2,250,000 and represents a 7.5% increase compared to 2016. The cost for custodial bank fees is eliminated in 2017, saving \$65,000 in estimated spending compared to 2016. And the total cost of anticipated capital calls for the remaining private investment funds, for payments to other retirement systems, for the refund and transfer of member accounts and for the payment of the annual benefit payroll are estimated to be \$48,178,000 in 2017, representing a 0.9% increase compared to 2016.

Overall, all administrative costs and spending for 2017 is estimated to be \$51,380,635 representing a 1.0% increase compared to 2016. The pages 10 through 12 contain the detailed, line-item budget.

LINE-ITEM BUDGET

Account	2015 Actual	2016 Budget	2017 Proposed	\$ Change 2016 to 2017	% Change 2016 to 2017
Salaries					
Board Stipend	21,750	22,500	22,500	-	0.0%
Employee Salaries	451,136	479,462	487,400	7,938	1.7%
Subtotal	472,886	501,962	509,900	7,938	1.6%
Investment Consulting Fees					
Investment Consulting Fees	30,000	30,000	30,000	-	0.0%
Subtotal	30,000	30,000	30,000	-	0.0%
Legal Expense					
Michael Sacco, Attorney at Law	77,917	65,000	75,000	10,000	15.4%
Murphy, Hesse, Toomey and Lehane	24,101	10,000	2,500	(7,500)	-75.0%
Other Legal Expense	1,667	1,500	1,500	-	0.0%
Subtotal	103,685	76,500	79,000	2,500	3.3%
Medical Records Expense					
Medical Records Expense	340	500	200	(300)	-60.0%
Subtotal	340	500	200	(300)	-60.0%
Fiduciary Insurance					
Fiduciary Insurance	27,086	28,450	29,300	850	3.0%
Subtotal	27,086	28,450	29,300	850	3.0%
Service Contracts					
PBI Contract	-	-	2,000	2,000	100.0%
Copy Machine Service Agreement	5,058	5,750	5,000	(750)	-13.0%
Postage Machine Lease	4,986	5,000	5,000	-	0.0%
Web Hosting	2,700	2,700	2,700	-	0.0%
Alarm System	5,479	5,600	5,600	-	0.0%

Storage Facility	2,446	2,500	2,600	100	4.0%
Database Software	25,320	26,600	27,900	1,300	4.9%
Subtotal	45,989	48,150	50,800	2,650	5.5%
Condominium Expense					
Monthly Condominium Fees	16,849	17,785	18,500	715	4.0%
Building Insurance	3,016	3,250	3,400	150	4.6%
Maintenance and Repair Expense	3,460	2,750	1,000	(1,750)	-63.6%
Subtotal	23,325	23,785	22,900	(885)	-3.7%
Professional Services					
Miscellaneous Professional Services	-	-	-	-	0.0%
Actuarial Consulting Fees	14,795	12,750	9,000	(3,750)	-29.4%
Board Secretary	4,400	3,850	3,850	-	0.0%
IT Consulting Services	8,498	15,000	12,500	(2,500)	-16.7%
Annual Audit	40,000	40,000	40,000	-	0.0%
Subtotal	67,693	71,600	65,350	(6,250)	-8.7%
Education & Training					
Education and Training	2,220	3,200	2,500	(700)	-21.9%
Subtotal	2,220	3,200	2,500	(700)	-21.9%
Administrative Expenses					
Health, Life and Dental Insurance	23,578	25,750	34,000	8,250	32.0%
Medicare Tax	6,624	7,250	7,250	-	0.0%
Unemployment Insurance Charges	2,535	500	750	250	50.0%
Workers Compensation Insurance	701	750	785	35	4.7%
Postage	10,120	10,000	13,000	3,000	30.0%
Telephone/Internet	7,638	7,300	7,300	-	0.0%
Election Expense	545	10,000	-	(10,000)	-100.0%
Newsletter Expense	9,666	11,000	7,000	(4,000)	-36.4%
Office Supplies	12,397	15,000	12,500	(2,500)	-16.7%

Electricity	3,681	4,500	4,500	-	0.0%
Retirement Appropriation	103,904	105,458	112,000	6,542	6.2%
Employee Payroll Services	2,011	2,100	2,100	-	0.0%
Cleaning Services	3,353	3,825	4,000	175	4.6%
Dues	500	500	500	-	0.0%
Subtotal	187,253	203,933	205,685	1,752	0.9%
Furniture & Equipment					
Computer Purchases	-	-	-	-	0.0%
Capital Account	-	20,000	5,000	(15,000)	-75.0%
Subtotal	-	20,000	5,000	(15,000)	-75.0%
Travel					
Travel	4,195	5,000	5,000	-	0.0%
Subtotal	4,195	5,000	5,000	-	0.0%
Reserve Account					
Reserve Fund	-	50,000	50,000	-	0.0%
Subtotal	-	55,000	50,000	(5,000)	-9.1%
Total Operating Expense	964,672	1,063,080	1,055,635	(7,445)	-0.7%
Investment Management Fees					
Investment Management Fees	254,891	300,000	300,000	-	0.0%
PRIT Fund Management Fees	1,768,363	1,700,000	1,850,000	150,000	8.8%
Subtotal	2,023,254	2,000,000	2,150,000	150,000	7.5%
Custodial Bank Fees					
State Street Trust Custodial Fees	64,952	65,000	-	(65,000)	-100.0%
Subtotal	64,952	65,000		(65,000)	-100.0%
Subtotal All Expenditures	3,052,878	3,128,080	3,205,635	77,555	2.5%
Other Expense					
Capital Calls	561,305	2,000,000	750,000	(1,250,000)	-62.5%

3(8)c payments	2,308,139	2,400,000	2,500,000	100,000	4.2%
Refunds and Transfers	3,221,398	3,257,000	3,250,000	(7,000)	-0.2%
Pensions	38,738,566	40,075,000	41,678,000	1,603,000	4.0%
Subtotal	44,829,408	47,732,000	48,178,000	446,000	0.9%
Total All Expenditures	47,882,286	50,860,080	51,383,635	523,555	1.0%

EMPLOYEE SALARY BUDGET

The 2017 administrative budget has been regrouped to include under employee salaries just the stipends paid to Board members and the salaries paid to employees. Other personnel costs, such as health insurance, unemployment insurance, etc., are now listed under administrative expense. This is how these same expenses are grouped in the disbursements section of the Annual Statement of Financial Condition submitted annually to PERAC.

There is no increase in the requested amount for Board member stipends in the 2017 administrative budget. Boards receive an annual stipend of \$4,500 which is paid to the Board member monthly.

ERRS is requesting an additional \$7,938 for employee salaries in 2017. This increased amount reflects adjustments made during 2016 and provides a salary reserve for a few potential pay raises in 2017. The original salary reserve request of \$3,000 was increased by the Board to \$6,000 at their meeting on August 22, 2016. A small amount of \$500 is set aside for potential overtime payments for the two ERRS employees classified as non-exempt.

The reason for the limited request for the salary reserve in 2016 compared to prior years is the result of turnover and adjustments made during 2016. In 2016, ERRS lost one employee, promoted an employee to fill this vacancy, hired a new employee to fill the position of the promoted employee, and the Board approved a salary increase in June in order to retain a key employee who had received a competing offer from another employer. In light of these adjustments, the need for additional salary adjustments in 2017 is limited.

It has typically been the practice of ERRS since 2011 to approve pay increases after an employee has completed one full year of service in their new position, and any such increase typically becomes effective at the start of the next subsequent budget year. There have been only two exceptions to this policy in the last six years.

The chart below shows the recent salary history and changes for ERRS employees. The 2016 salary budget shows the amounts approved in the final budget effective as of January 1, 2016. The 2017 salary budget contains any adjustments made after January 1, 2016. The salary reserve totals for 2015 and 2016, reflect the balance remaining in this line-item after the year-end performance based pay increases have been approved by the Board.

Any salary adjustments that may be made by the Board after the completion of the employee performance review process in December of 2016, will be reflected in the final budget submission that is distributed to all of the ERRS units in January of 2017.

ERRS SALARY HISTORY BY POSITION 2015 TO 2017

Employee	2015 Salary Budget	2016 Salary Budget	2017 Salary Budget	2017 \$ Change	2017 % Change
Executive Director	138,000.00	141,450.00	141,450.00	-	0.0%
Director of Administration & Finance	83,500.00	85,587.50	93,000.00	7,412.50	8.7%
Retirement Counselor	72,695.12	68,000.00	68,000.00	-	0.0%
Retirement Counselor	68,000.00	69,700.00	69,700.00	-	0.0%
Membership Counselor	60,000.00	61,384.62	60,000.00	(1,384.62)	-2.3%
Administrative Assistant	50,212.50	51,467.81	48,750.00	(2,717.81)	-5.3%
Salary Reserve Fund	5,830.50	1,872.57	6,000.00	4,127.43	220.4%
Overtime	1,000.00	-	500.00	500.00	0.0%
Total	479,238	479,462	487,400	7,937.50	1.7%
Year over Year Change		0.0%	1.7%		

As part of the personnel management process instituted in 2011, each year employees are provided with a mid-year and final performance review conducted by the Executive Director. The mid-year review is held in July and the final review in December. (The Executive Director's performance is reviewed by the Board members, typically on the same schedule.) Salary adjustments are approved by the Board in December based the recommendation of the Executive Director.

The Salary Reserve Fund was created in 2015 to permit the Board to approve employee salary adjustments upon the completion of the employee review process, or to allow the Board to match competing offers from other employers in order to retain valued employees.

The inclusion of the salary reserve line-item has permitted ERRS to pay competitive wages to its employees while also keeping salary costs within budget. For instance, the \$487,400 requested for employee salaries in 2017 represents a total increase of just 6.1% from the amount requested five years ago, or an average annual increase of 1.2%. The next chart shows the actual increase or decrease in the employee salary budget for the years 2012 through to the 2017 preliminary budget.

ERRS EMPLOYEE SALARY BUDGET
INCREASE/DECREASE 2012 – 2017

Year	Increase/Decrease
2012	-3.7%
2013	-1.1%
2014	1.1%
2015	5.0%
2016	0.0%
2017	1.7%

In fact, the total amount requested for employee salaries in 2017, including the salary reserve line-item, is less than the amount spent on salaries by the retirement system in *2008*.⁷

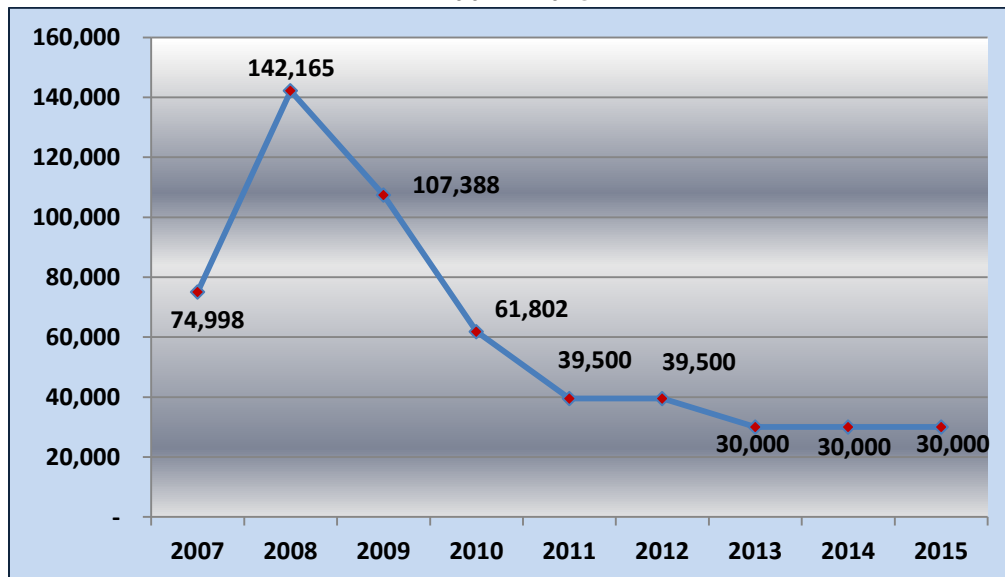
⁷ According to the Annual Statements of Financial Condition, employee salary spending in 2008 was \$487,004. Employee salary spending in 2009 was \$592,285. From 2010 to 2015, employee salary actual spending never exceeded \$455,341.

INVESTMENT CONSULTING FEES

Dahab Associates of Franklin, MA is the ERRS investment consultant and was selected via a competitive procurement conducted in 2012. In October of 2015, ERRS extended the existing agreement with Dahab Associates for another two years at the same \$30,000 per year cost. Consequently, the 2016 budget for investment consulting services remains at \$30,000.

As a result of the 2012 competitive procurement and the transfer of ERRS assets to the PRIT Fund, investment consultant fees have been reduced from a high of \$142,165 in 2008, to \$30,000 each year from 2013 through 2015, and the budget for investment consultant fees in 2016 and 2017 has remained at \$30,000. The next chart below shows investment consultant fees actually spent from 2007 through 2015.

**ERRS INVESTMENT CONSULTANT SPENDING
2007 – 2015**



LEGAL EXPENSE

ERRS employs two law firms. The Law Offices of Michael Sacco provides legal services on retirement matters under Massachusetts General Law (MGL) Chapter 32. Murphy, Hesse, Toomey & Lehan provide 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 completed in 2015.

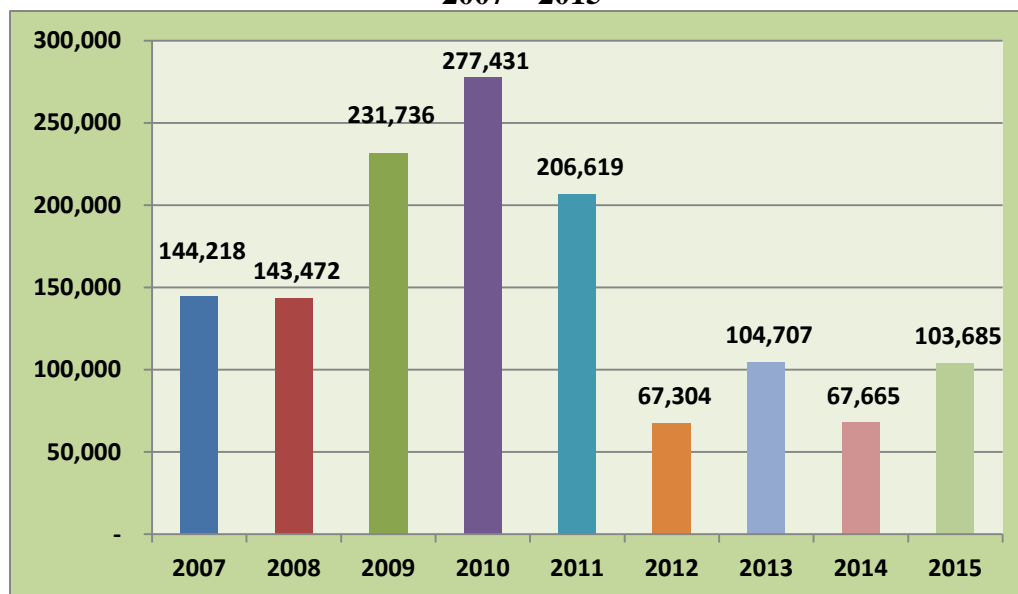
For the three years from 2012 through 2014, ERRS spent an average of \$71,000 per year on its two legal firms. This was well below the \$102,000 average budget amount in these years. As a

result, ERRS recommended a reduced legal budget in 2015, cutting the budget for the two legal firms from the \$90,000 budgeted in 2013 and 2014 to \$75,000 in both 2015 and 2016.

The filing of a record number of disability applications and the litigation of a major pension forfeiture case, were among the factors that resulted in total spending for ERRS' two legal firms to increase to \$102,018 in 2015, a dramatic 44% increase compared with the average spent over the three prior years.

Even with the increased spending in 2015, and the inclusion in 2011 and 2013 of escrow payments and other legal expenses not related to payments made to the ERRS law firms, spending on legal expenses has been dramatically less since 2011 than in prior years. The chart below shows the decline in legal expenditures from 2007 to 2015.

**ERRS LEGAL SPENDING
2007 – 2015**



The number of disability applications has abated somewhat in 2016, although the total number of pending applications remains high. In addition, a second pension forfeiture case is now in litigation, along with multiple appeals of disability applications denied by the Board. Based on legal spending through the first six months of 2016, ERRS anticipates that total legal spending in this year may be approximately \$90,000.

As spending in 2016 is almost exclusively on legal issues involving MGL Chapter 32 retirement matters, ERRS is recommending that the line-item for the Law Offices of Michael Sacco be increased from \$65,000 to \$75,000 in the 2017 administrative budget.

Through the first six months of 2016, ERRS has spent only \$1,022 for the legal services of Murphy, Hesse, Toomey and Lehane. Therefore, ERRS is recommending that the 2017 legal budget for this firm be reduced to \$2,500.

Another \$1,500 in Other Legal Expense is requested for 2017 to pay for legal ads associated with anticipated procurements to be conducted next year.

The total legal budget request for 2017, therefore, is \$79,000, representing a 3.3% increase over the 2016 legal budget.

MEDICAL RECORDS EXPENSE

Medical Records Expense pays for any retirement system costs associated with disability hearings as well as pre-employment physicals for newly hired employees. A small \$300 reduction in this line-item is proposed in the 2017 budget based on the prior years' expenditure history. Over the last nine years, ERRS has spent on average \$208 per year from this line-item, including two years in which there were no expenditures. Therefore, the proposed amount of \$200 for 2017 is consistent with the average spending in recent years.

FIDUCIARY INSURANCE

Fiduciary liability coverage insures 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 of the annual increase in the fiduciary insurance premium over the last five years shows that charges increase an average of 2.9%. Therefore, ERRS is proposing a 3% cost increase for the payment of the fiduciary insurance premium in 2017.

SERVICE CONTRACTS

The total amount requested for service contracts in 2017 reflects an increase of \$2,650, or 5.5%. This increase is primarily due to a new contract added by ERRS. This contract is with Pension Benefit Information (PBI) Inc., which provides notifications to retirement systems of the deaths of retirees or members. This service is widely used by retirement boards and it helps insure the timely payment of death benefits, as well as the timely stoppage of payments beyond the date of death for benefit recipients. This service also can provide updated address information to the retirement system.

ERRS also entered into a lease agreement for a new copier in 2016. As part of this new agreement, ERRS will not be charged in the first year for copies and printing. This first year discount will carry over into 2017. Therefore, ERRS is reducing its copier budget by \$750, or 13%.

A small increase has been included for the storage facility used by ERRS, and a 4.9% increase has been factored into the database software line-item. ERRS is in the last year of its agreement with Pension Technology Group (PTG) for database software services, so this amount for 2017 is an estimate. A competitive procurement will be undertaken in the first part of 2017 for database software services. PTG is the dominant provider of database services to retirement boards in Massachusetts, so there is a low expectation of competition during this procurement next year. In 2012, when this service was originally competitively bid, PTG was the only company to submit a proposal.

There is no change proposed in the remaining line-items under Service Contracts.

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.⁸ 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. Anne Speicher, ERRS' Director of Administration & Finance, is a member of the Board of Trustees of the condo association and keeps ERRS up-to-date on issues affecting the condo association. ERRS typically hosts the regular meetings of the condo association trustees in its Board meeting room.

ERRS is requesting \$22,900 in 2017 to pay for condo fees, building insurance coverage and potential maintenance work to the two office suites.

The annual condo fees have risen slowly but steadily over the last few years, which includes a one-time special assessment in 2015 to address the snow removal costs from that winter's numerous storms. Building insurance premiums have been stable the last two years, although ERRS is factoring in a small increase in this line-item for 2017. Lastly, ERRS has undertaken

⁸ Deeds are recorded at the South Essex Registry of Deeds, BK 16422, PG 520, and BK 16422, PG 525.

several small repairs and maintenance projects in the offices over the last few years and, consequently, is reducing this line-item in 2017 in the hopes that no additional work will be required next year.

In terms of overall costs for this expense, ERRS' request for \$22,900 reflects a small reduction compared to 2016, and is consistent with actual spending over the last ten years. In fact, the 2017 request of \$22,900 is substantially below the \$27,152 actually spent as far back as 2007.

PROFESSIONAL SERVICES

The professional services category includes the cost of contracts with vendors who provide actuarial services, the recording of Board meetings, IT consulting services and the annual audit of financial statements and GASB 67 & 68 reporting.

Actuarial Consulting Services

ERRS selected Stone Consulting, Inc., in 2012 to provide actuarial consulting services via a competitive procurement. Initially, the contract called for a valuation study to be completed in 2013, 2015 and 2017. However, two significant and unanticipated developments have resulted in a far greater role for Stone Consulting, Inc., over the last three years than had been originally anticipated.

First, 2014 was originally anticipated to be a year in which no actuarial consulting services would be required. However, new requirements were imposed by Government Accounting Standards Board (GASB) Statement No. 67 and Statement No. 68 (GASB 67/68), which became effective as of Fiscal Year 2015. These Statements affected the financial reporting for all Massachusetts public pension plans.

GASB 67 relates to reporting by the retirement boards, while GASB 68 relates to reporting by the employer and annually affects the audits conducted by the nineteen municipalities who are members of ERRS. Both statements require retirement plans and employers to annually measure plan liabilities, plan assets, asset allocation, pension expense, and other related items.

GASB 67 and 68 had far reaching effects, and added reporting responsibilities on to the retirement board, the employer, the retirement board's actuary, the board and employer's auditor, and the retirement board's investment consultant. Primary responsibility, however, fell upon the retirement board's actuary and audit firm. The actuary's responsibilities include the actuarial valuation and determination of GASB 67/68 liabilities, including pension expense, net pension liability, and the schedule of changes in net pension liability

It has been argued that retirement boards are responsible for the preparation of the GASB 67 report and the GASB 68 report costs should be borne by the employer. Early on in this process,

however, the ERRS Board determined that it was more efficient and cost-effective that both the GASB 67 & 68 reports be completed and funded by the retirement system.

In order to prepare the GASB 67 & 68 reports in 2015 using timely data, ERRS directed Stone Consulting, Inc., to conduct an actuarial valuation as of January 1, 2014, rather than wait until January 1, 2015. This permitted ERRS and its employer units to comply with GASB 67 & 68 using the most recently available data. This additional valuation study was not originally anticipated in the agreement with Stone Consulting, Inc., but the additional cost was included in the 2014 budget.

This also meant that ERRS was on a different schedule for its valuation studies than was included in the original agreement with Stone Consulting, Inc. Actuarial valuation studies are required by statute every two years. Since the last valuation study was conducted as of January 1, 2014, ERRS must conduct another valuation study in 2016.

In addition, throughout most of 2014 and 2015, ERRS was exploring the possibility of moving from its current annual appropriation method, which is based on the salaries paid to active employees by its member units, to an actuarial appropriation method. In an actuarial appropriation method the annual appropriation is based on the actual cost of benefits per employer unit as determined by the actuary. Consequently, in 2014, Stone Consulting was engaged to provide a comparative analysis of the two appropriation methods. This was not part of the original actuarial agreement nor was it anticipated in the 2014 budget. In November of 2015, the Board voted to table the consideration of an actuarial appropriation method until various legal issues surrounding this process were clarified.

In addition to all of the unanticipated work associated with GASB 67 & 68, and with the analysis of the actuarial versus the salary appropriation methods, ERRS also was involved in resolving payment for the unfunded liability associated with the merger of the former Essex Agricultural and Technical School (Essex Aggie) with the former North Shore Technical High School to form the new Essex Technical High School (Essex Tech).

It was the retirement Board's position that the relevant statutes required Essex Tech to pay the unfunded liability associated with the former employees of Essex Aggie who had retired and remained as members of ERRS. Determining the unfunded liability associated with the retirees of the former Essex Aggie required Stone Consulting, Inc., to perform several cost studies. Although this added cost to the original actuarial agreement, the work of Stone Consulting helped support the retirement Board's two year effort to secure legislation permitting ERRS to bill Essex Tech for this unfunded liability.

In 2016, Governor Baker signed the 2016 state budget which contained an outside section permitting ERRS to bill Essex Tech for the unfunded liability. This outside section was successfully added during the budget process by the North Shore legislative delegation. The amount to be billed annually was to be determined by an analysis completed by Stone Consulting, subject to the approval of the PERAC Actuary.

This successful effort resulted in the authorization to permit ERRS to bill Essex Tech \$4.1 million amortized over a seventeen year period to cover the liability associated with the retirees of the former Essex Aggie.

The GASB studies, the actuarial appropriation analysis and the Essex Aggie allocation were not anticipated as part of the original 2012 actuarial valuation contract. ERRS has funded this work from its existing budget allocations, in addition to the originally anticipated valuation studies. However, conducting a valuation study in 2014, which had not originally been scheduled, also added an extra cost to the original actuarial consulting agreement for the extra study.

These adjustments to the scope of work and the valuation study schedule mean no valuation study will be necessary in 2017. Normally, actuarial consulting fees would then be zeroed out for the year, or only a token amount requested in case the actuary was needed for some minor work between studies. However, given the GASB requirements and other issues unique to ERRS, the 2017 budget is requesting \$9,000 for actuarial consulting services in 2017.

Board Secretary

ERRS employs a secretary to the Board who records the minutes of Board meetings and the Advisory Council meetings. The secretary is paid \$275 per meeting. This stipend amount was increased for the first time in five years in 2015 by \$25 per meeting.

ERRS has received great praise for the detailed, thorough meeting minutes it provides and we encourage individuals to view our meeting minutes at our website, www.essexregional.com.

The Board typically meets once per month and the Advisory Council meets twice per year. Based on 14 meetings, \$3,850 is requested for this item in 2017. Although the Board secretary is often asked to record additional meetings, this is typically limited to one or two per year. For special meetings that are not anticipated to be long or complex, the Executive Director will record the meeting and produce the minutes.

IT Consulting Services

In 2015, ERRS hired HIQ Computers of Medford, MA as its new IT Consultant. The initial audit of ERRS systems resulted in some immediate work to improve performance and security. ERRS was also able to complete upgrades to its hardware in 2015 and 2016, including the purchase of new laptops. In preparing the 2017 budget, ERRS determined that only minor hardware upgrades may be necessary. If possible, ERRS is going to continue to defer computer hardware purchases in order to keep costs down.

In addition, the amount of calls to HIQ support staff and necessary upgrades to software have leveled off in 2016, and no additional work is anticipated in 2017. Therefore, ERRS is reducing the IT Consulting line-item \$2,500 in the 2017 budget.

Annual Audit

In August of 2012, ERRS awarded a three year audit contract to Powers and Sullivan, LLC of Wakefield, MA, for the annual audit of ERRS financial statements. This was the first private CPA firm hired by the retirement system to audit its financial statements. The original cost of this contract was \$20,000 per year.

As described in the section on actuarial consulting fees, GASB 67 & 68 added new reporting requirements which greatly affected the work assignment for the ERRS audit firm. In 2015, the original agreement with Powers & Sullivan was amended to reflect the additional work required due to GASB 67 & 68.

ERRS conducted a competitive procurement for audit services in 2015, as the three year agreement originally awarded in 2012 to Powers & Sullivan had expired. In November, the ERRS Board again chose Powers & Sullivan for another three year agreement. The annual price for audit services, which includes the review of the financial statements and the GASB 67 & 68 reporting, was \$40,000. Although this is double the original cost of the audit contract, it is a price that remains stable throughout the length of the audit agreement. Therefore, ERRS is not requesting any additional funds for the annual audit in 2017, which is the second year of the current three year agreement.

The annual audit is also a supplement to PERAC's regular triennial reviews. PERAC will always have the option to accept the annual audit performed by Powers and Sullivan or to conduct their own, regular audit. Since 2012, PERAC has completed one audit in 2013, which covered the years 2009, 2010 and 2011. PERAC completed its on-site work and held an exit interview for a second audit in 2016, covering the years 2012, 2013 and 2014. The exit interview identified only two minor findings relating to retirement withholdings by a handful of ERRS units, and the overbilling on one 3(8)(c) charge which totaled \$500.

Between the Powers and Sullivan and PERAC audits, ERRS' finances and operations have been audited six times in the four years between 2013 and 2016.

EDUCATION AND TRAINING

This line-item funds training programs provided to Board members and staff of ERRS.

Pension reform legislation passed in 2011, required that Board members receive 18 hours of training during their terms of office. Board members must receive a minimum of three hours of training per year and cannot exceed nine hours of training in any one year. PERAC holds numerous training sessions in their offices throughout the year and has also worked with MACRS to provide training session credits at the annual spring and fall conferences. ERRS Board members have actively worked to meet this requirement since it was made mandatory in 2012. A majority of Board member training credits are provided at the two MACRS

conferences, and most of the spending in this line-item pays the registration fees for the MACRS conference.

There was no spending on education and training from 2007 to 2009, and spending then fluctuated significantly from 2010 to 2012. However, the average spending on education and training from 2013 to 2015 has been approximately \$2,400. Through June of 2016, \$1,870 has been spent on education and training.

Based on this historical spending trend, ERRS is requesting a \$700 reduction in the education and training line-item in 2017, to \$2,500. This is still more than was spent on average between 2013 and 2015, and is consistent with the pace of spending in 2016.

ADMINISTRATIVE EXPENSES

ERRS is requesting \$205,685 in administrative expenses in the 2017 budget. Although this request reflects only a 0.9% increase, there are major changes in this section compared to 2016.

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 over the last several years.

At least one additional employee will be added to the GIC insurance in 2016. Therefore, we are presently requesting a 32% increase in this line-item, by adding an additional \$8,250 in 2017. ERRS will continue to monitor the cost of health insurance throughout the remainder of 2016 and make any adjustments that are necessary in the final budget submission as actual costs become known.

As life events or personnel changes could result in additional increases in health insurance costs, ERRS is building in planned 15% annual increases in this line-item over the next five years.

Medicare Tax

ERRS has requested \$7,250 for this line-item in recent years which has proven sufficient. Therefore, no change is requested in 2017.

Unemployment Insurance Charges

Based on spending through June of 2016, ERRS is requesting a small \$250 increase in this line-item in 2017. This line-item pays the state unemployment insurance tax, which is typically between \$500 and \$750 per year.

Workers Compensation Insurance

ERRS is requesting a small \$35 increase in this line-item in 2017, although recent years expenditures have been below budget. This small increase should be enough to off-set any increase in this line-item in 2017.

Postage

ERRS typically refills its postage account twice per year at approximately \$5,000 per refill. This has proven sufficient in recent years. ERRS uses Red Sun Press for the printing and distribution of its newsletters. In years past, ERRS has paid Red Sun Press for the postage cost for distributing the newsletter. Beginning in 2017, the newsletter postage cost will be paid directly by ERRS using its own postage account. This should reduce the cost of postage overall. To account for this change, ERRS is increasing the postage line-item by \$3,000 and correspondingly reducing the newsletter line-item. There is not net change in the total budget cost.

Telephone/Internet

Comcast is the ERRS telephone and internet service provider, and costs have been fairly consistent in recent years. ERRS is not planning any upgrades to its telephone and internet service and, therefore, is not requesting any increase in this line-item in 2017.

Election Expense

This line-item covers the cost of the election of Board members. In 2016, ERRS is conducting an election of its Third and Fourth Members, who are elected by all retired, active and inactive members. The term of office for the Third and Fourth members is three years. ERRS requested \$10,000 to cover the cost of this election in 2016, which is the same amount expended in 2013 and 2010.

The election scheduled for 2017 is for the First Member, who is elected by the chief executives of the forty-seven ERRS units. This election is conducted by mail and all printing, writing and mailing is done in-house by ERRS staff. Therefore, no amount of funds is requested for elections in 2017, saving \$10,000.

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. ERRS typically spends \$10,000 to print and mail two newsletters per year to approximately 5,500 retirees and members. Beginning in 2017, the newsletter postage cost will be paid directly by ERRS using its own postage account. This should reduce the cost of postage overall. To account for this change, ERRS is increasing the postage line-item by \$3,000 and correspondingly reducing the newsletter line-item. There is not net change in the total budget cost.

Office Supplies

ERRS spent \$12,397 for office supplies in 2015, and through July 31, 2016, ERRS has spent \$5,727. Based on this record of spending, ERRS is reducing its office supply line-item budget for 2017 by \$2,500 and is requesting \$12,500.

Electricity

ERRS' electricity is supplied by the Town of Danvers electric department. Electricity costs have risen modestly in recent years, but ERRS has kept its budget requests level, which has proven sufficient. As ERRS has only spent 40.8% of its electric budget through June 30, 2016, no change is proposed in 2017.

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.

The retirement appropriation has increased from 2012 to 2015, despite limited growth in salaries, and even in some years, reductions. This has been due to errors made in reporting ERRS salaries in past years, the change in salary survey process in 2013, and the timing of changes made within the retirement system in recent years.

For instance, the ERRS retirement appropriation increased by 52% in 2013, 12.6% in 2014 and 11.8% in 2015. These retirement appropriations were based on the following salary surveys:

- Calendar year 2011 for ERRS budget year 2013;
- 1/1/2013 to 9/30/2013 for ERRS budget year 2014;
- 1/1/2014 to 9/30/2014 for ERRS budget year 2015.

The 2013 appropriation used calendar year 2011 salaries, when 10 months of the current Executive Director's salary (\$102,273) and a partial year of another employee's salary (\$19,800) were included in the total. The prior Executive Director's salary and the former part-time administrative assistant wages were not included in the salary survey prior to 2011. The total increase from 2010 to 2011 in the ERRS salary survey was \$121,099. The addition of the two salaries referenced above in 2011 added \$122,073 to the total of all ERRS salaries used for the retirement appropriation in 2013.

It should be noted as well, that the increase in the annual retirement appropriation at this time was due in part to an error made by the prior Board when reporting 2009 employee salaries. In 2009, the then ERRB under-reported staff wages by \$200,000 on their salary survey, erroneously reducing their 2012 retirement appropriation significantly. The 2012 ERRB retirement appropriation should have been \$62,425, plus \$61,233 in ERI payments. The total retirement appropriation should have been \$123,658 in 2012, rather than the \$88,039 actually paid.

ERRS changed the method used to calculate the salary survey in 2013. This required all units to skip a year, which was calendar year 2012. As a result of the timing of some employee departures and the arrival of new hires, the amount used in the salary survey increased by \$23,000.

The net result of the prior errors and the change in the salary survey process was that in both 2011 and 2013, the salary survey total used to calculate the retirement appropriation went up, even though all of the new employees were actually earning less than the people they replaced.

The actual ERRS retirement appropriation for 2016 (FY2017 for the ERRS units) only increased by 1.5%. This was due to vacancies in multiple positions at ERRS in the first part of 2015.

For 2017 (FY2018 for the ERRS units), ERRS is estimating a 6.2% increase in the appropriation. Although there are other factors to consider, at this early point in the budget process, ERRS is basing this estimated increase on the 7.0% total increase in the appropriation contained in the funding schedule, which should be partly off-set by vacancies in multiple positions at ERRS in the first half of 2016.

Employee Payroll Services

In 2011, ERRS contracted with Harpers Payroll Services to provide professional payroll and tax reporting services. Actual expenditures are on-track to be within budget in 2016, as they have been in the last several years. There does not appear to be any need for any additional funds in this line-item in 2017. In fact, based on preliminary research, ERRS anticipates potentially saving money in this line-item as the result of a competitive procurement scheduled to take place in 2016.

Cleaning Services

ERRS will be re-bidding its cleaning service contract in 2016, which is the final year of the two-year contract entered into in 2014. This contract provides cleaning services by a third party vendor once a week for the two ERRS office suites. To hedge against any increase in the new cleaning contract, this line-item has been increased by \$175 for 2017. Actual costs will not be known until later in 2016 when the competitive procurement process is complete.

Dues

ERRS pays dues to two organizations each year, the Massachusetts Association of Contributory Retirement Systems (MACRS) and the Eastern Massachusetts Treasurers and Collectors Association (EMTCA). Dues for MACRS are \$400 and dues for EMTCA are \$100. ERRS is requesting \$500 for this line-item in 2017, the same amount that has been requested in prior years.

FURNITURE AND EQUIPMENT

This section has been combined to include all capital purchases, which for ERRS are typically furniture or computer equipment. ERRS is deferring any capital purchase for computer software in 2017 in order to reduce the administrative budget. If funds become available during the budget year, ERRS may look to begin to replace individual computer work stations. The current work stations were purchased in 2011 and are in need of replacement, but no funds are requested in the **computer purchases** line-item for 2017.

ERRS has a request for \$5,000 in its **capital account** for 2017, in the hopes of making some modest purchases of new furniture. Not only is much of the furniture in the ERRS offices outdated, but several chairs are torn and ripped and the stuffing is literally falling out. This small amount will help ERRS replace some of the older pieces of furniture, particularly office, board room and guest chairs.

The \$5,000 request is a reduction of \$15,000 from the 2016 budget. In 2016, \$20,000 was requested in case ERRS pursued moving to another office location, but this initiative has been deferred in order to keep costs down.

TRAVEL

ERRS is again requesting \$5,000 for travel expense in 2017. The only travel typically taken by ERRS Board members or employees are in-state trips to the spring and fall MACRS conferences, plus local trips to meetings or office hours. Since 2010, ERRS travel expenses have been decreased dramatically. From 2010 through the end of 2015, travel expenses have averaged \$4,595 and, over those six years, have exceeded \$5,000 only twice.⁹ Based on the historical

⁹ Travel expenses from 2007 through 2009 averaged \$17,777 and exceeded \$20,000 in two of those three years.

spending pattern of the last six years, \$5,000 should be sufficient for travel expenses again in 2017.

RESERVE FUND

ERRS is requesting \$50,000 for a reserve fund again in 2017. This is the amount that ERRS has requested for its reserve fund line-item every year since 2012. However, the amount necessary to be transferred from the reserve fund to cover increasing or unanticipated costs has been increasing in recent years. In 2015, for instance, ERRS required over \$31,963 from the reserve fund to keep other line-items fully funded, and increase of 31% above the \$24,342 utilized in 2014. Through August of 2016, ERRS has requested a budget transfer to cover a \$14,000 overrun in actuarial consulting costs, and the 2016 valuation study is still not complete.

Even though ERRS has not typically used the entire reserve fund amount from year to year, we are still requesting to keep this line-item at \$50,000. Continued increases in costs and the continued reduction in the budget request each year presents a difficult challenge as the margin for meeting unanticipated costs shrinks each year.

TOTAL ADMINISTRATIVE SPENDING

The total amount of administrative spending requested for 2017 is \$1,055,635. As mentioned elsewhere in this report, this is the fifth time in the last six years that the amount requested for administrative spending is less than the year before. Although 2016 saw a 2.6% increase in the budget after four consecutive years of budget reductions, the 2017 administrative budget is still 3.1% less than the administrative budget request submitted in 2012.

Overall ERRS' administrative spending has remained generally stable over the last several years and ERRS remains committed to keeping its administrative costs as low as possible. However, it will be a challenge to continue to cut the budget from one year to the next, while simultaneously adding services for its members, retaining experienced personnel, and funding additional costs that result from regulatory changes or new mandates. However, ERRS has been successful in meeting this challenge thus far, and we will continue to do our utmost to meet it in the years ahead.

Upon certification by the Advisory Council at its meeting on September 28, 2016, a final budget will be presented to the Board for approval in December. The 2017 final budget, with all changes approved by the Board, will be distributed to the ERRS Chief Executives and Advisory Council members promptly after the December Board meeting.

SPENDING PLAN ESTIMATES FOR 2017

INVESTMENT MANAGEMENT FEES

As of June 30, 2016, the Essex Regional Retirement System's investment portfolio was valued at \$371,504,289. Of this total, 92.9% is invested in the Commonwealth's Pension Reserves Investment Trust (PRIT) Fund. Of the remaining investment funds managed directly by ERRS, 3.9% is in private equity and 1.2% is in real estate. The remaining 2.0% of ERRS assets are in cash funds. ERRS is well on its way to its goal of investing 100% of its assets in the PRIT Fund.

ERRS pays its fund managers, including the PRIT Fund, a fee that is generally based on a basis points (bps) calculation of the total assets under management, although each private managed funds assesses fees differently. Generally speaking, however, 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. ERRS posts the quarterly investment management reports that are submitted to the Board on its website (www.essexregional.com) in the Reports section.

Fees are withheld by the private fund managers in two ways. Some private fund managers bill quarterly for fees, while others withhold the fees from investment earnings. PERAC has been working with all retirement systems to see that the management fees that are withheld directly from investment earning by the fund manager are also recorded as expenditures. Although ERRS' private investment fees are declining rapidly as funds are liquidated and assets transferred to the PRIT Fund, some private manager fees are still paid.

Based on investment performance in the first part of 2016 and the increase in the assets transferred to the PRIT Fund, ERRS is estimating that spending on management fees paid to the PRIT Fund will increase. The amount reflected in this line-item has been increased by 8.8%, from \$1,700,000 in 2016 to \$1,850,000 in 2017. Fees paid to private fund managers are estimated to remain the same, at \$300,000 in 2017.

CUSTODIAL BANK FEES

ERRS also pays a fee to State Street Bank for custodial bank services. As the custodial bank for ERRS, State Street provides the following services:

- Holds assets of certain accounts.
- Collects dividends and interest paid on securities.
- Proxy servicing.
- Detailed accounting of all transactions, monthly and annually.
- Class actions services.¹⁰
- Tracks assets by manager and provides consolidated reporting.

¹⁰ ERRS also employs a securities counsel who handles larger claims on ERRS' behalf, or claims in which ERRS is a lead party. The securities counsel is paid on a contingency basis. Fees from successful securities litigation are approved by the court and no appropriation by ERRS is necessary.

Cash distributions paid by the private investment managers are kept in State Street Bank, in an account which invests in short-term notes. These short-term notes are converted to cash when capital calls are received. When the cash balance at State Street Bank reaches \$2 million or more, ERRS typically moves this money either to pay our monthly expenses or to the PRIT Fund to be invested there. In 2014, State Street Bank raised its quarterly fees for these services.

As a result of the transition of ERRS assets to the PRIT Fund, there does not appear to be any reason to continue to pay for the services of a custodial bank. Therefore, in July of 2016, the ERRS Board voted to discontinue its relationship with State Street Bank at the conclusion of the current agreement, which expires on December 31, 2016. The Board further voted not to seek a new custodial bank provider. The reporting services previously provided by State Street Bank will be performed in-house by ERRS staff. The elimination of the custodial bank provider will save \$65,000 in the 2017 spending plan.

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 more than six years, and as nearly all of the current privately managed funds are winding down, ERRS' capital call exposure has greatly decreased. Therefore, ERRS is anticipating spending only \$750,000 in capital calls in 2017. This is a decrease of \$1,250,000 from the estimated spending in 2016, but is much closer to the actual amount spent (\$561,305) in 2015.

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 the portion of the benefit can be billed by the original pension system administering the benefit. PERAC approves the allocation of payments and these payments are primarily made in January and February of each year.

The payment of 3(8)(c) charges has steadily increased since 2012 when ERRS hired a new Director of Finance, who began a laborious process of straightening 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 that need to be resolved, but spending in this line-item has leveled off in recent years. Therefore, ERRS is estimating that spending on 3(8)(c) charges will increase by only \$100,000 in 2017.

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 leaves ERRS and becomes employed in another retirement system governed by MGL Chapter, 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.

ERRS has developed a far more efficient manner in the last several years of notifying inactive members of funds available to them if they request a refund. In addition, backlogs of transfer requests have been cleared and the refund process improved and streamlined. Processing refunds, rollover and transfer requests are expedited now, which has resulted in an increase in this line-item in recent years. However, since 2014 spending has leveled off in this line-item as well. Therefore, in 2017, estimated spending in this line-item is kept relatively stable, reflecting only a small (0.2%) decrease.

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 actual increase in expenditures for the pension payroll has been fairly consistent from year to year, typically rising approximately 5% each year. Based on recent spending history, ERRS is estimating an increase in the 2017 retirement benefit payroll of \$1,603,000, or a 4.0% increase.

SUMMARY

The total of all ERRS expenditures for 2017 is \$51,380,635, an increase of \$520,555 above 2016. This is an increase of 1.0% in total retirement system costs.

SUPPLEMENTAL REGULATIONS

Massachusetts public retirement systems are authorized to issue supplemental regulations governing the operation of each system. To become effective, a supplemental regulation must first be approved the state oversight agency, the Public Employee Retirement Administration Commission (PERAC). ERRS is listing all of its supplement regulations in this budget document to assist our employers and members in becoming familiar with the regulations which govern the retirement system.

All supplemental regulations, including those that have been rescinded are listed in the Reports section of the ERRS website at www.essexregional.com.¹¹

Supplemental Creditable Service Regulation

Members of the Essex Regional Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Essex Regional Retirement System (“System”), with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 150 hours being the equivalent of one (1) month of service.
- For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the System previous service rendered in a full-time capacity, the member’s part-time service shall be prorated based on the full-time equivalency of 150 hours per month.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 30th , including but not limited to cafeteria workers, clerical and secretarial staff, teacher’s assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable

¹¹ The investment and travel regulations are not listed here. The investment regulations pertain to PERAC approvals for investments made many years ago. In fact, the most recent of these regulations is day May of 2008. The travel regulations are seven pages long and deal primarily with the reimbursement of Board members and staff for travel expenses.

service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the System as set forth in this regulation.

- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.
- Creditable service for 10 month employees shall be based on 1,500 hours being the equivalent of 1 year, whereas creditable service for 12 month employees shall be based on 1,800¹² hours per year.
- Any member purchasing past part-time service rendered shall have said service prorated based on 150 hours being considered a full month of service.¹³
- Members of the System may only purchase and receive credit for past service rendered in a member unit of the System, or if the past service was rendered under the jurisdiction of another retirement system, such service may only be purchased if rendered in a temporary, provisional or substitute capacity, provided that the individual was excluded from membership in the other retirement system. All prior non-membership service shall be calculated with 150 hours being the equivalent of one (1) month of creditable service.
- Any member in service who is not permanently employed, either by contract or written or oral agreement, at least 20 hours per week and earning at least \$5,000 in regular compensation per year will not receive any creditable service.¹⁴

APPROVED: March 20, 2013

Payment of Interest – Correction of Errors

The provisions of M.G.L. c. 32, § 20(5)(c)(2) state “[w]hen an error exists in the records maintained by the system or an error is made in computing a benefit and, as a result, a member or beneficiary receives from the system more or less than the member or beneficiary would have been entitled to receive had the records been correct or had the error not been made, the records or error shall be corrected and as far as practicable, and future payments shall be adjusted so that the actuarial equivalent of the pension or benefit to which the member or beneficiary was correctly entitled shall be paid. If it is determined that a member has contributed an incorrect amount to the retirement system, the member shall be required to contribute an amount sufficient

¹² Amendment to 1,800 hours approved and effective as of May 23, 2013.

¹³ Amendment striking the phrase “*Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time*” approved and effective as of May 3, 2016.

¹⁴ Amendment adding this paragraph approved and effective as of August 13, 2014.

to correct such error or the board shall pay an amount to the member to correct such error, as the case may be.”

The Board’s policy with respect to the correction of such errors, and the calculation of what constitutes the actuarial equivalent, consistent with the decision rendered in Herrick v. Essex Regional Retirement Board, 465 Mass. 801 (2013) and PERAC Memorandum #32/2013, shall require the Board to pay to the member or beneficiary, or in the case in which a member or beneficiary has been overpaid by the Board, the amount of the corrected benefit, together with three percent (3%) annual interest on the benefit paid or owed, as the case may be, computed from the date the error occurred to the date the error was corrected. In a circumstance in which the Board owes funds to the member or beneficiary, the Board will make a one-time lump-sum payment of the amount owed, and prospectively from the date of payment correct the error such that the member or beneficiary receives the corrected monthly benefit. In a circumstance in which the Board is owed funds by a member or beneficiary to correct an error, the Board shall in its sole discretion withhold an amount it deems appropriate from the member’s or beneficiary’s monthly benefit until such time as the debt is fully recovered. In a circumstance in which the Board is owed funds by a member or beneficiary to correct an error, and the member or beneficiary is no longer entitled to receive a monthly benefit, the Board will seek to recover any amount owed in the most prudent and practical manner possible, and reserves the right to maintain an action in contract to recovery any amount due from the member, beneficiary or the member’s or beneficiary’s estate.

APPROVED: October 21, 2014

Membership – Elected Officials

That if an elected official is not a member of the retirement system before their election by popular vote, they do not have to join the system; but they may join by applying for membership, in writing, within ninety (90) days of assuming their elective office.

APPROVED: September 24, 1996

Overnight Accommodations

In cases where overnight travel and accommodations are required, the Board is authorized to approve reimbursements related to reasonable and necessary expenses incurred the day before the scheduled event and the day after the scheduled event. “Scheduled event” is meant the event giving rise to the legitimate travel attendance.

APPROVED: August 2, 2004

SELECTED POLICIES

The ERRS Board has also approved a variety of policies to guide staff in the day-to-day procedures of the retirement system. A selected number of these policies are listed here, and all policies, including those that have been discontinued or superseded by later policies, are included in the Reports section of the ERRS website at www.essexregional.com.

POLICY MEMO #: 13-14

SUBJECT: INSTALLMENT PLANS

BOARD APPROVAL DATE: 04/29/2013

POLICY:

Members of the Essex Regional Retirement System (System) who previously rendered service in any member unit of the System or as an employee of the Board and who were not eligible for membership in the System at the time the service was rendered, shall be eligible to purchase such past service rendered, in monthly increments, consistent with the provisions of M.G.L. c. 32, § 4(2)(c) and the Board's regulation regarding the calculation of creditable service. Members of the System who previously rendered service in another governmental unit in the Commonwealth of Massachusetts who were not eligible to participate in the retirement system which has jurisdiction over said governmental unit shall be eligible to purchase such past service rendered provided that said service was rendered in a temporary, provisional or substitute position, in monthly increments, consistent with the provisions of M.G.L. c. 32, § 3(5) and the Board's regulation regarding the calculation of creditable service. Members may accomplish the purchase of past non-membership service rendered, or prior refunded membership service, by remitting to the Board the amount due, together with buyback interest, in a lump-sum or by entering into an installment plan, not to exceed 3 years, within 1 year of becoming a member of the System. If the service purchase is not accomplished or the installment plan is not commenced within 1 year of becoming a member of the System, the purchase of the past service rendered will be calculated based on the actuarial assumed interest. Members who are unable to complete the service purchase within 3 years due to a demonstrated financial hardship as determined by the Board, may request to extend the time for purchase up to an additional 2 years. Interest on any purchase of service paid via an installment plan shall be calculated to the date upon which the purchase is to be paid in full. No installment payment plan shall be effective until approved by a majority vote of the Board. The Board may extend or contract the installment plan period if the circumstances so warrant. All installment plans shall consist of payroll deductions of not less than \$25 per week, \$50 per biweekly payroll or \$100 per month. The minimum weekly payment of any installment plan in which a member participates must be sufficient to complete the payment in full during the installment plan period. Failure to complete the installment plan will result in a refund of all payment previously remitted, and no credit will be awarded on a prorated basis. Members who fail to complete the plan will not have a second opportunity to purchase the past service rendered via the installment plan. Members who submitted all of the required documentation prior to April 2, 2013 for the purchase of prior service rendered or for the purchase of refunded service prior to April 2, 2013 may elect to participate in an installment plan. Members who meet the requirements of this paragraph may purchase their prior service rendered or refunded service using buyback interest calculated to the date upon which the purchase is to be paid in full.

POLICY MEMO #: 14-19

SUBJECT: UPDATED PUBLIC MEETING POSTING PROCEDURES

BOARD APPROVAL DATE: 03/31/2014

POLICY:

In order to insure compliance with the Open Meeting Law, Chapter 30A, the Essex Regional Retirement System (ERRS) has updated its public meeting posting procedures. This policy memo supersedes Policy Memo #: 11-05.

ERRS has notified the Office of the Attorney General that pursuant to 940 CMR 29.03(3), it has adopted the use of its website as an alternative method of posting notice for its meetings. The ERRS website is the official meeting posting location for all ERRS public meetings. All other notices distributed by ERRS are for informational purposes only.

Notwithstanding the notice filed by ERRS pursuant to 940 CMR 29.03(3), ERRS will also provide a public meeting notice to all its member units and to the municipalities that are members of ERRS. To the extent practicable, all such notices will be filed in a manner that complies with the requirements of the Open Meeting Law.

Each public meeting notice submitted to the member units and to the municipalities that are members of ERRS will contain the following statement:

* This notice is provided for information purposes only. The official and updated notices of the Essex Regional Retirement System (ERRS) meetings may be found at the ERRS website (www.essexregional.com) by accessing the Latest News and Announcements, Calendar or Meeting Agenda link of the website.

Prior to posting any public meeting notice, ERRS will complete the Public Body Checklist for Posting a Meeting Notice as issued by the Office of the Attorney General. A completed checklist will be kept on file at ERRS and will be available for inspection upon request.

If, more than forty-eight business hours prior to the meeting, the Chair of the ERRS Board reasonably anticipates a specific topic will be discussed and that topic is not included on the official meeting posting, that topic will not be discussed until a future public meeting. The New Business heading on the agenda will contain a notice that this section of meeting "May be reserved for topics that the chair did not reasonably anticipate would be discussed." This section of the meeting will be reserved for those items not listed on the agenda and which the Chair did not reasonably anticipate would be discussed at the meeting and for which no revised list of topics to be discussed has been posted.

ERRS will provide a revised list of topics to be discussed to the public in advance of the meeting if the Board intends to discuss topics that come up after posting but before the meeting convenes and that the Chair did not reasonably anticipate would be discussed forty-eight hours prior to the

meeting. ERRS will post this revised list on its website and, if practicable, will distribute a notice to its member units that a revised list of topics has been posted to its website.

POLICY MEMO #: 14-21

SUBJECT: PROCUREMENT POLICY

BOARD APPROVAL DATE: 07/21/2014

POLICY:

This policy memo supersedes Policy Memo #12-09.

For every contract for the procurement of supplies, services or real property and for disposing of supplies or real property where no other statute shall apply, the Essex Regional Retirement System (ERRS) shall follow the requirements of Massachusetts General Law, Chapter 30B. Any exception to this policy must be approved by a vote of the members of the Board of ERRS.

The Executive Director shall act as the Chief Procurement Officer for ERRS. The Executive Director is hereby authorized to enter into contracts for the procurement of supplies and services which have a total value of less than \$10,000.00.

A vote of the Board shall be required for any contracts for the procurement of supplies or services whose total value is \$10,000.00 or greater, or any contract for the procurement of real property, or any contract for disposing of supplies or real property.

A vote of the Board shall be required for the award of any contract pursuant to Massachusetts General Law, Chapter 32, for legal, actuarial, accounting and investment services.

POLICY MEMO #: 15-23

SUBJECT: PRORATION OF DAYS FOR CALCULATING BENEFITS

BOARD APPROVAL DATE: 03/30/2015

POLICY:

To maintain consistency and to insure that all benefit calculations are computed equitably, the Board of the Essex Regional Retirement System has adopted the following policy:

All retirement and death benefit prorates will be calculated on a 30 day basis.

POLICY MEMO #: 15-24

SUBJECT: REVISED MEMBERSHIP POLICY

BOARD APPROVAL DATE: 11/23/2015

POLICY: ESSEX REGIONAL RETIREMENT BOARD'S MEMBERSHIP POLICY

Any individual who is permanently employed twenty (20) or more hours per week in a single position by any member unit of the Essex Regional Retirement System ("System") and who receives at least \$5,000 in wages as defined in M.G.L. c. 32, § 1 and 840 CMR 15.03 shall become a member of the System. Upon becoming a member of the System, a member must maintain the status of being permanently employed 20 or more hours per week earn \$5,000 annually in wages to continue contributing to the System and accruing creditable service.

Any elected official who earns at least \$5,000 in wages may elect to become a member of the System within ninety days after the date of assuming office. Upon becoming a member of the System, an elected official must maintain the status of receiving \$5,000 in wages annually to continuing contributing to the System and accruing creditable service.

POLICY MEMO #16-25

SUBJECT: FINANCIAL CONTROLS

BOARD APPROVAL DATE: 02/29/2016

POLICY: This policy specifies the procedures to be followed by all employees when managing the funds entrusted to the Essex Regional Retirement System (ERRS).

Statement: The purpose of this policy is to establish sound financial controls and practices in order to insure the following:

- That all receipts received by the retirement system are deposited on a timely basis;
- That all disbursements and transfers are made only after the proper authorization is received and all safeguards have been followed;
- That the timely reconciliation of accounts and reporting of financial transactions is regularly and consistently performed;
- And, that all relevant laws, regulations and best practices are followed in the management of the funds entrusted to the retirement system.

Receipts: All payments made to the retirement system shall be deposited on a daily basis to the extent practical. Any uncashed checks not deposited shall be kept in a locked or secured location.

A copy of the front and back of each check deposited shall be made and retained in either paper or electronic format.

As the retirement system uses a remote capture procedure, all deposited checks shall be retained in a secure location until the completion of the monthly reconciliation for the period in which the checks were deposited. Upon completion of the monthly reconciliation, all checks subject to the reconciliation shall be destroyed in a manner consistent with the procedures recommended by the banking institution into which the deposit was made.

The Executive Director shall designate one individual among the staff to be responsible for the daily deposit of receipts. This individual shall not have authority to sign checks, authorize wires or otherwise directly disburse funds.

Notices of disbursements received by the retirement system from privately managed investment funds shall be included in the meeting materials for Board members.

Disbursements: All disbursements of funds by ERRS shall be in accordance with Massachusetts General Law (M.G.L.) Chapter 32, Section 23(2), which states in part:

Payments from such funds shall be made . . . only upon vouchers signed by two persons designated by the board of any such system . . . No voucher shall be drawn unless it shall have been previously authorized by vote of the board.

Therefore, no disbursements of funds shall be made by the retirement system except upon a vote of the Board at a properly posted public meeting, and upon a duly signed warrant as approved by the Board. The minutes of each meeting shall record the individual expenditure as listed on the warrant to the extent permitted by law. No voucher shall be placed on the warrant except upon the signatures of the Director of Administration and Finance and the Executive Director approving the expenditure.

As it may be necessary from time to time to authorize expenditures prior to approval of a warrant by the Board as described above, in such instances, the following procedures must be followed:

The Executive Director must first determine that any disbursement to be made in advance of Board approval is in the best interests of the retirement system and/or its member(s). Such instances shall include but not be limited to the following:

- The failure to disburse the funds timely will result in additional cost to the retirement system;
- The failure to disburse the funds timely will result in the failure to meet the terms or requirements of an agreement previously approved by the Board;
- The failure to disburse the funds timely will cause undo harm to a member of the retirement system;
- The payment of the bi-weekly employee payroll.

Upon a determination by the Executive Director that a disbursement of funds must be made prior to a vote of the Board, and prior to any such disbursement, the voucher shall be submitted to the Board Chair for signature. Only after the voucher is signed by the Board Chair may the funds then be expended.

In any instance in which funds are disbursed prior to a vote of the Board, said expenditure shall appear on a warrant separate from all other warrants and shall be submitted to the Board for approval no later than the next regular meeting.

Vouchers appearing on a warrant to be approved by the Board shall be made available for inspection by members prior to, during and after a meeting, and at any other such time as such inspection may be requested by a member. All original vouchers and warrants shall be kept in the custody of the Director of Administration and Finance.

Upon payment of any invoice, the original invoice shall be stamped "PAID" by the Director of Administration and Finance.

All checks issued by the retirement system shall be signed by the Executive Director. The Executive Director's signature on checks may be in electronic format, provided that the electronic signature shall only be accessible by the Director of Administration and Finance.

All checks of \$10,000 or more shall require the signature of a member of the Board. The Board shall designate two members who shall be authorized signatories for checks of \$10,000 or more. The Board shall vote annually, on or before July 1st of each year, to continue or change the two members designated as the signatories for checks in excess of \$10,000.

All regular benefit payments shall be by direct deposit. The Board shall approve all new benefit disbursements. The Executive Director shall provide to the Board in support of these benefit payments, the calculation sheet as generated by the database software, a first payment calculation sheet if applicable, and any other documentation necessary to assist the members in determining the whether the payment of such benefit is appropriate and correct.

Notices of Deposit (NOD) shall only be issued in July and December of each year, unless otherwise deemed necessary, and shall be processed under the supervision of the Director of Administration and Finance. The actual mailing of the NOD's shall be performed by staff other than the Director of Administration and Finance.

The Board shall approve all refund payments and all rollover or transfers of member accounts.

A monthly expenditure report shall be presented to the Board showing all expenses by the retirement system. The expenditure report shall be submitted to the Board within sixty days of the completion of the month.

The monthly expenditure report shall show the amounts for each line-item as certified by the Advisory Council with the amounts expended and the balance remaining. If any amount in any line-item shall be insufficient to meet the recorded or anticipated expenses, the Executive

Director shall request the Board to approve a transfer from the Reserve Fund, or from another line-item in the budget where sufficient funds are available.

Reconciliations: The cash accounts of the retirement system shall be reconciled monthly.

The Executive Director shall designate one individual as responsible for the completion of the monthly reconciliation reports. This individual shall be an employee other than the employees who receive or are authorized to disburse cash.

The accounts to be reconciled monthly include the depository account, the expense account, the benefit payroll account, and any other cash account into which receipts are made or disbursements taken on a monthly basis.

The Board shall designate one member to be responsible for reviewing the monthly reconciliation report and the supporting documentation.

The designated individual responsible for performing the monthly reconciliation reports shall submit the report to the designated Board member upon its completion. Upon review and approval by the designated Board member, the monthly reconciliation report shall be submitted to the full Board as part of the regular meeting materials.

Reporting: Each month, the Director of Administration and Finance shall submit to the Public Employee Retirement Administration Commission (PERAC) the following reports detailing the financial activity through the end of the reporting period:

- An account summary;
- A listing of all accounting adjustments;
- A report of all receipts and disbursements;
- A copy of the General Ledger;
- A copy of the Trial Balance.

The above-listed reports shall be filed with PERAC no later than sixty days after the conclusion of each month. If such reports are not filed with PERAC within sixty days after the conclusion of a month, the Executive Director shall report the reason for the failure to file the reports to the Board at the next regularly scheduled meeting.

A copy of all of the above listed reports shall be included in the meeting materials provided to the Board each month.

Cash Management: The retirement system shall select a local bank into which receipts will be deposited and from which funds shall be distributed. The retirement system bank accounts shall be established in a bank that meets the highest rating standards using the triple green rating as determined by the Veribanc or similar rating service.

The retirement system shall establish in the local bank no more than three accounts, which shall be as follows:

- A depository account into which the receipts of the system shall be deposited daily.
- A vendor account, from which all payments shall be made except payments for retirement and survivor benefits. This shall be a zero balance account.
- A benefit payroll account, from which all retirement and survivor benefits shall be paid. This shall be a zero balance account.

The balances in the accounts described above need not be fully insured or collateralized as long as the local bank meets the rating standards as described above. Notwithstanding, it is the preference of the retirement system that all bank accounts be collateralized or fully insured.

In accordance with PERAC recommendations and best practices, only a minimal balance shall be kept in the local bank account.

On or before December 31st of each year, the Executive Director shall prepare for the Board a monthly cash flow report. The monthly cash flow report shall show the amount of expenditures anticipated for the ensuing calendar year.

Further, the monthly cash flow report shall show the amount of revenue anticipated each month, the anticipated annual appropriation amount, the amount of the annual appropriation to be transferred to the Public Reserve Investment Trust (PRIT) Fund, the amount to be maintained in the PRIT Cash Fund and the amount of funds available in any other cash or short-term investment fund.

The monthly cash flow report will show the anticipated balances at the beginning of each month in the local bank account(s) and the anticipated monthly revenue to be received.

The cash flow report will insure that sufficient funds are maintained in cash or cash equivalent accounts to fund no more than two months of the retirement system's expenses.

The cash flow report will detail the anticipated amount to be transferred from the PRIT Cash Fund and/or other cash or short-term investment account(s) to meet the monthly expenditures of the retirement system.

All other cash assets of the retirement system shall be invested in the PRIT Core Fund pursuant to the investment policy of the retirement system, or in some other manner recommended by the investment consultant.

No less than quarterly, the Executive Director shall submit to the Board an updated monthly cash flow report which shall show all expenses and transfers made to-date, and the remaining cash flow plan for the balance of the calendar year.

Disbursements from privately managed investment funds shall be directed to the custodial bank. These cash disbursements shall be used to support the operational expenses of the retirement system in accordance with the cash flow plan approved by the Board. Cash disbursements in excess of the amounts necessary to support the operational expenses of the retirement system as

described in the approved cash flow plan, shall be invested in the PRIT Fund pursuant to the investment policy of the retirement system.

Wire Transfers: The Director of Administration and Finance shall prepare all wire transfer letters for the payment of expenses. Only the Executive Director shall be authorized to sign wire transfer letters. The Executive Director shall make every effort to insure that all wire transfers for the payment of expenses are made with the prior approval by the Board.

However, as it is occasionally necessary that a wire transfer must be made prior to a vote of the Board, the Executive Director is authorized to make such transfers subject to the following limitations:

- Prior to approval by the Board, Executive Director is authorized to wire transfer funds in payment of investment fees, pursuant to an approved investment agreement.
- Prior to approval by the Board, the Executive Director is authorized to wire transfer funds in response to a capital call, pursuant to an approved investment agreement.

Any wire transfer payment made prior to a vote of the Board shall first require the Executive Director to receive written approval from the Board Chair. An email from the Board Chair approving the transfer shall be considered as written approval.

The Executive Director is further authorized to make a wire transfers between the banks of the retirement system for the purposes of meeting operational needs or pursuant to the investment policy of the retirement system. Provided, however, that any such wire transfer made in advance of a vote of the Board shall require prior written approval from the Board Chair. An email from the Board Chair approving the transfer shall be considered as written approval.

In any instance in which funds are transferred prior to a vote of the Board, said transfer shall appear on a wire transfer warrant, separate from all other warrants, and shall be submitted to the Board for approval no later than the next regular meeting.

In order to meet the monthly expenses of the retirement system and upon request of the Director of Administration and Finance, funds may be transferred from the depository account to the vendor or benefit payroll accounts at the discretion of the Executive Director.

However, each month the Executive Director shall provide to the Board as part of their monthly meeting materials, a copy of the report of the Director of Administration and Finance requesting such transfer(s), along with a confirmation report of the transfers made.

Documents and Procedures: The security of the blank check stock shall be the sole responsibility of the Director of Administration and Finance. The blank check stock shall be kept at all times in a secure location.

Any checks issued by the retirement system which shall be uncashed for a period of six months shall be investigated by the Director of Administration and Finance. The Director of

Administration and Finance shall report to the Executive Director any checks that remain uncashed for more than six months.

The Executive Director shall create a voucher form which shall be used by the retirement system to approve all payments. The Board shall approve the use of such voucher form.

Employees of the retirement system shall be entitled to reimbursement for, or payment of, legitimate business expenses incurred in the performance of their duties, including automobile expenses for authorized travel at the reimbursement rate previously approved by the Board, professional association dues if approved by the Board in advance, and expenses incurred while attending approved educational/professional conferences or seminars.

All expense reimbursement must be within the approved budget limit set by the Board as part of the annual budget process.

All reimbursement requests by employees or Board members must be submitted on the required form to the Executive Director for approval no less than thirty days after the expense is incurred and must be supported by original receipts or documentation.

All expense reimbursement requests from the Executive Director must be submitted on the required form to the Board Chair for approval no less than thirty days after the expense is incurred and must be supported by original receipts or documentation.

All pay and benefits provided to employees of the retirement system shall be effective only upon a vote of the Board at a properly posted public meeting.

Upon a vote by the Board approving a change in pay or benefits for any employee, the Executive Director shall prepare a memo stating the rate of pay or the benefits approved by the Board. This memo must be signed by no less than three of members of the Board. The Director of Administration and Finance shall not process any changes in pay or benefits for any employee except upon receipt of the above-referenced memo.

POLICY MEMO #16-26

SUBJECT: INVESTMENT POLICY

BOARD APPROVAL DATE: 02/29/2016

POLICY: The Essex Regional Retirement System (the “Fund”) has been created and funded to provide retirement benefits for those employees who through their years of service have earned a right to a retirement benefit. The purpose of this fund is to provide for the accumulation and distribution of money in an actuarially sound fashion over the years of the employees’ service and subsequent retirement. This document is designed to set forth the policies and guidelines for those who administer and invest the funds in the portfolio.

The Fund is a defined benefit plan as defined and set forth by Massachusetts General Law, Chapter 32, and the investment procedures and regulations set forth under the statute must be followed. If, at any time, this document is found to be in conflict with Massachusetts law, the statute shall prevail.

Although this fund is not subject to the Employee Retirement Income Security Act (ERISA), every effort will be made to adhere to those guidelines. Therefore, all of the individuals associated with the plan should act within the confines of that statute. Where not specifically indicated, the actions and/or decisions of the individuals are to be governed by the prudent man rule.

This investment policy shall cover the entire portfolio as well as all investment managers.

Regulatory Requirements: Since the Essex Regional Retirement System is a qualified defined benefit plan as defined and set forth by Massachusetts law, investment procedures and restrictions stipulated under these regulations must be followed.

Duties as a Fiduciary: Every fiduciary shall:

- Discharge his or her duties for the exclusive purpose of providing benefits to the Essex Regional Retirement System members and their beneficiaries and defraying reasonable expenses of administering the Plan;
- Act with care, skill prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims;
- Diversify investments of the Essex Regional Retirement System so as to minimize the risk of large losses unless under the circumstances it is clearly not prudent to do so, and;
- Operate in accordance with the Essex Regional Retirement System procedures, documents and instruments.

No fiduciary shall:

- Deal with the Essex Regional Retirement System assets for his or her own account or his or her own interest, and/or;
- Act in any matter affecting the retirement system on behalf of any person or organization whose interests are adverse to the interests of the Essex Regional Retirement System, its members or beneficiaries.

Investment Objective: In accordance with the Fund's actuary, the Board has established long-term goals for the overall investment portfolio consistent with the liabilities of the Fund. At a minimum, the Fund in aggregate needs to earn a compound annualized rate of return over time of 8.0%.

Furthermore, the Board expects the fund to earn a real rate of return of at least 3.0% as measured by the change in the Consumer Price Index (CPI) over a five-year period.

While the Board acknowledges that market conditions can produce periods where such returns are difficult to achieve, the advisor is expected to contribute to meeting the long term objectives of the plan as well as others set forth in this document.

Asset Allocation: It is the policy of the Fund to invest the assets of the retirement system in the Pension Reserves Investment Trust (PRIT) Fund. In consultation with the investment consultant, the Fund will periodically review its asset allocation to determine if any action is necessary to adjust the allocation of funds among asset classes within the PRIT Fund.

The Board realizes the need to provide liquidity to pay obligations as they come due. Surplus cash flows, additional contributions, and investment manager cash will be utilized in accordance with the approved cash flow plan to pay obligations of the Fund and may require periodic re-balancing of the assets.

The Fund's investment manager shall be kept informed of the liquidity requirements of the Fund, and to the extent possible, avoid untimely sales of assets which could be detrimental to the performance of the Plan.

BROKERAGE

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a >best execution= basis. Notwithstanding the foregoing, the Board reserve the right to direct any or all of the brokerage commissions associated with the portfolio for the purposes of securing research and related services for the benefit of the Plan and its participants. Brokerage transactions should not be directed to any firm if in doing so, taking all factors into consideration, the Fund will incur a disadvantage with respect to the market price of the security. Further, irrespective of any obligations to pay for services engaged by either the advisor or the Board, only transactions that would normally be made for the Fund in the absence of such obligations should be executed.

Proxy Voting: Responsibility for the exercise of ownership through proxy solicitation shall rest solely with the investment managers. Guidelines for voting proxies will be listed in individual manager guidelines.

Implementation: All monies invested for the Essex Regional Retirement System by their investment managers after the adoption of this Investment Policy Statement shall conform to this statement.

ERRS BY THE NUMBERS

All of the numbers listed below are as of December 31, 2015.

Total Assets at Market Value:	\$374,936,877
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Total Annual Disbursements:	\$47,362,934
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Active Membership:	Group 1:	2,279
	Group 2 & 4:	460
	Total:	2,739

Inactive Membership:	Group 1:	1,022
	Group 2 & 4:	46
	Total:	1,068

Retired Membership:		
Superannuation:	Group 1:	1,144
	Group 2 & 4:	266
	Total:	1,410

Ordinary Disability:	Group 1:	8
	Group 2 & 4:	5
	Total:	13

Accidental Disability:	Group 1:	47
	Group 2 & 4:	66
	Total:	113

Beneficiaries:	Group 1:	136
	Group 2 & 4:	86
	Total:	222

Total Retired and Beneficiary:	Group 1:	1,335
	Group 2 & 4:	423
	Total:	1,758

Total Active, Inactive, Retired and Beneficiary:		
	Group 1:	4,636
	Group 2 & 4:	929
	Total:	5,565

ERRS CONTACT INFORMATION

Board Members

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Kevin A. Merz	Second Member	kmerz@essexrrs.org
Vincent R. Malgeri	Fifth Member	vmalgeri@essexrrs.org

Staff

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