

# ESSEX REGIONAL RETIREMENT BOARD

## *2023 ADMINISTRATIVE BUDGET AND SPENDING PLAN*



### **BOARD MEMBERS**

***ANDREW J. SHEEHAN, FIRST MEMBER***

***KEVIN A. MERZ, SECOND MEMBER***

***KATHERINE E. CARLETON, ELECTED MEMBER***

***SUSAN J. YASKELL, ELECTED MEMBER***

***VINCENT R. MALGERI, FIFTH MEMBER***

CHARLES E. KOSTRO  
EXECUTIVE DIRECTOR



## **2023 ADMINISTRATIVE BUDGET SPREADSHEET**

Please find below the detailed, line-item spreadsheet for the administrative budget of the Essex Regional Retirement System (ERRS) for 2023. This spreadsheet includes all retirement system spending, including non-administrative items such as the retiree payroll, refunds, transfers, etc.

There is one notable change in the final 2023 administrative budget. In October of 2022, the Board voted to remove the retirement system from the annual appropriation calculation. This vote followed a recommendation of the Public Employee Retirement Administration Commission (PERAC), the state agency that oversees all Massachusetts public pension systems. Powers and Sullivan, the private CPA firm that audit's ERRS, also made this recommendation. Therefore, there is no retirement appropriation amount in the final 2023 administrative budget.

To ensure a proper comparison from year to year, the retirement appropriation amount has been removed from the 2021 and 2022 budgets in the chart below. With the retirement appropriation included, the year-over-year increase was 8.4%. With the retirement appropriation eliminated, the year-over-year increase is 8.7%. Although the percent increase is slightly greater, had the retirement appropriation amount remained in the final budget, the total dollar amount requested would be \$1,995 less than that presented to the Advisory Council in September.

The line-item 2023 ERRS administrative budget is below.

<b>Account</b>	<b>2021 Budget</b>	<b>2022 Budget</b>	<b>2023 Proposed</b>	<b>\$ Change 2022 to 2023</b>	<b>% Change 2022 to 2023</b>
<b>Salaries</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Board Stipend	22,500	22,500	22,500	-	0.0%
Employee Salaries	521,949	537,282	590,619	53,337	9.9%
<b>Subtotal</b>	<b>544,449</b>	<b>559,782</b>	<b>613,119</b>	<b>53,337</b>	<b>9.5%</b>
<b>Legal Expense</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Michael Sacco, Attorney at Law	75,000	63,000	95,000	32,000	50.8%
Other Legal Expense	500	500	500	-	0.0%
<b>Subtotal</b>	<b>75,500</b>	<b>63,500</b>	<b>95,500</b>	<b>32,000</b>	<b>50.4%</b>
<b>Medical Records Expense</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>

Medical Records Expense	75	175	-	(175)	-100.0%
<b>Subtotal</b>	<b>75</b>	<b>175</b>	<b>-</b>	<b>(175)</b>	<b>-100.0%</b>
<b>Fiduciary Insurance</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Fiduciary Insurance	31,900	37,500	37,500	-	0.0%
<b>Subtotal</b>	<b>31,900</b>	<b>37,500</b>	<b>37,500</b>	<b>-</b>	<b>0.0%</b>
<b>Service Contracts</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Copy Machine Service Agreement	3,750	3,100	3,600	500	16.1%
Postage Machine Lease	3,400	3,800	3,800	-	0.0%
Alarm System	520	525	525	-	0.0%
Storage Facility	5,000	6,250	7,775	1,525	24.4%
Web Hosting	3,000	3,000	3,350	350	11.7%
Database Software	47,000	49,000	49,090	90	0.2%
Database Software - Insurance Portal	-	12,000	-	(12,000)	-100.0%
PBI Contract	2,200	2,200	2,200	-	0.0%
<b>Subtotal</b>	<b>64,870</b>	<b>79,875</b>	<b>70,340</b>	<b>(9,535)</b>	<b>-11.9%</b>
<b>Condominium Expense</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Monthly Condominium Fees	18,150	18,650	20,000	1,350	7.2%
Building Insurance	3,300	3,450	3,750	300	8.7%
Maintenance and Repair Expense	1,250	1,250	3,000	1,750	140.0%
<b>Subtotal</b>	<b>22,700</b>	<b>23,350</b>	<b>26,750</b>	<b>3,400</b>	<b>14.6%</b>
<b>Professional Services</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Public Pension Alliance	-	-	-	-	0.0%
Actuarial Consulting Fees	5,000	32,000	6,000	(26,000)	-81.3%
IT Consulting Services	10,000	12,500	20,000	7,500	60.0%

Annual Audit	40,000	40,000	40,000	-	0.0%
<b>Subtotal</b>	<b>55,000</b>	<b>84,500</b>	<b>66,000</b>	<b>(18,500)</b>	<b>-21.9%</b>
<b>Education &amp; Training</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Education and Training	1,000	1,000	2,600	1,600	160.0%
<b>Subtotal</b>	<b>1,000</b>	<b>1,000</b>	<b>2,600</b>	<b>1,600</b>	<b>160.0%</b>
<b>Administrative Expenses</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Health, Life and Dental Insurance	40,000	54,000	60,000	6,000	11.1%
Medicare Tax	7,250	8,000	9,000	1,000	12.5%
Unemployment Insurance Charges	1,000	500	850	350	70.0%
Workers Compensation Insurance	750	800	800	-	0.0%
Postage	10,000	7,500	12,500	5,000	66.7%
Telephone/Internet	4,750	6,850	7,000	150	2.2%
Dues	600	600	600	-	0.0%
Newsletter Expense	10,000	5,000	10,000	5,000	100.0%
Office Supplies	12,000	11,000	15,000	4,000	36.4%
Electricity	3,400	3,400	3,400	-	0.0%
Retirement Appropriation	-	-	-	-	0.0%
Employee Payroll Services	2,000	2,000	2,200	200	10.0%
Election Expense	-	10,000	-	(10,000)	-100.0%
Cleaning Services	3,400	3,400	3,700	300	8.8%
<b>Subtotal</b>	<b>95,150</b>	<b>113,050</b>	<b>125,050</b>	<b>12,000</b>	<b>10.6%</b>
<b>Furniture &amp; Equipment</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Capital Account	-	-	5,000	5,000	100.0%
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>5,000</b>	<b>0.0%</b>

<b>Travel</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Travel	2,000	2,000	3,000	1,000	50.0%
<b>Subtotal</b>	<b>2,000</b>	<b>2,000</b>	<b>3,000</b>	<b>1,000</b>	<b>50.0%</b>
<b>Reserve Account</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Reserve Fund	47,035	42,396	50,000	7,604	17.9%
<b>Subtotal</b>	<b>47,035</b>	<b>42,396</b>	<b>50,000</b>	<b>7,604</b>	<b>17.9%</b>
<b>Total Operating Expense</b>	<b>939,679</b>	<b>1,007,128</b>	<b>1,094,859</b>	<b>87,731</b>	<b>8.7%</b>
<b>Investment Management Fees</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Investment Management Fees	50,000	25,000	20,000	(5,000)	-20.0%
PRIT Fund Management Fees	2,795,000	3,175,000	3,400,000	225,000	7.1%
<b>Subtotal</b>	<b>2,845,000</b>	<b>3,200,000</b>	<b>3,420,000</b>	<b>220,000</b>	<b>6.9%</b>
<b>Subtotal All Expenditures</b>	<b>3,784,679</b>	<b>4,207,128</b>	<b>4,514,859</b>	<b>307,731</b>	<b>7.3%</b>
<b>Other Expense</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Capital Calls	75,000	50,000	-	(50,000)	-100.0%
3(8)c payments	3,250,000	3,100,000	3,100,000	-	0.0%
Refunds and Transfers	3,400,000	3,750,000	4,000,000	250,000	6.7%
Retirement Benefit Payroll	50,960,000	54,000,000	57,500,000	3,500,000	6.5%
<b>Subtotal</b>	<b>57,685,000</b>	<b>60,900,000</b>	<b>64,600,000</b>	<b>3,700,000</b>	<b>6.1%</b>
<b>Total All Expenditures</b>	<b>61,469,679</b>	<b>65,107,128</b>	<b>69,114,859</b>	<b>4,007,731</b>	<b>6.2%</b>

## **EXECUTIVE DIRECTOR SUMMARY**

Not since I was appointed as Executive Director in March of 2011, have I faced a year as challenging as 2022. The retirement system has endured the loss of four of its six full-time employees over the past year. At this writing, two of the retirement system's full-time staff positions remain unfilled. In addition, the Board has served without its full complement of members for most of the year, and it too is in transition, as one long-serving member has left, and a new member has joined. And, in December of 2022, notice has been given that another member of the Board will be leaving in February 2023. At one point in the year, for the first time in my tenure, the Board was unable to assemble a quorum for its regular monthly meeting.

Yet, in the face of these challenges, ERRS not only endured, but still managed to achieve remarkable results in 2022. Some of the more notable accomplishments in 2022 include:

- Successfully completed the annual audit of the retirement system's financial statements. This year's audit was the fourth consecutive audit conducted by a private CPA firm in which there were no findings of management deficiencies and no errors noted in the financial statements. It should also be remembered that the state completed a separate audit of ERRS in 2021. This state audit covered a five-year period and it too, did not have a single finding.
- Successfully and timely completed the biennial valuation study of the retirement system's assets and liabilities. The 2022 valuation study found that the funded ratio of the retirement has significantly improved, and the subsequent funding schedule approved by the state reduced the rate of increase in the annual appropriation paid by ERRS units.
- Subsequent to the completion of the valuation study, ERRS staff was able to facilitate a vote by the Advisory Council increasing the base on which a Cost-of-Living Adjustment (COLA) is paid to ERRS retirees. Despite the short notice, ERRS staff completed all of the required meetings, votes, and notices by the statutorily mandated deadline. For the first time, the COLA base was increased by \$2,000 in a single year, rising from the original \$14,000 to \$16,000. This increase in the COLA base resulted in an increase in the retirement benefit of eligible retirees as of July 1, 2022.
- Successfully conducted a system-wide election involving the mailing of 6,300 ballots, the organization and counting of 1,200 ballots and the successful election of two Board members.
- ERRS staff completed the biennial census with a 99% compliance rate (staff is following up with retirees who have not responded.)
- Staff completed two major procurements, one for legal services and one for a database provider. These are two of the most essential services provided to the retirement system and now will not have to be re-bid until 2027 at the earliest.
- During the course of the year, the retirement staff set several records for processing monthly transactions, including:

- Enrolling 140 new members in the month of March, the single highest monthly total in ERRS history, and enrolled over 250 members from March through June, cleaning up a huge backlog of unprocessed and missing enrollments.
- Processed 32 retirements in August, another record for a single month and nearly the same amount as had been approved in the prior seven months combined.
- Every filing deadline was met in 2022, and the retirement system is not behind in completing any required submissions. This includes filing the Annual Statement of Financial Condition on time; keeping all required financial reconciliations up to date; and, continuing to file all of the monthly financial reports required by the state on time and on schedule.
- ERRS will finish 2022 with administrative costs under-budget by thousands of dollars. This is the eleventh consecutive year that ERRS has been under budget in its administration of the retirement system.
- Twice during the year, ERRS was able to utilize short-term staffing solutions to meet operational needs.

It is inevitable in the face of being short-handed for such an extended period that not everything is attended to as efficiently as it normally would. In particular, it has been challenging to process service purchases and account transfers as swiftly as would usually be done. The ability to respond to the numerous daily inquiries received by the retirement system has also been affected.

The 2023 administrative budget contains several steps designed to make employment at the retirement system professionally and financially attractive to qualified employees. At 9.5%, ERRS is planning on the largest employee salary budget increase in twelve years. This has been an on-going effort over the past several years, and the continued loss of employees by the retirement system will hopefully be addressed by this change. Overall, the administrative budget increases by 8.4%, also the largest year-over-year increase in the past twelve years. But the amount of this increase is consistent with the operational needs of the retirement system and is in-line with the year-over-year rate of inflation.

Change is inevitable and in these times turnover is everywhere. ERRS emerged from the pandemic fully staffed and in a strong position, but 2022 has been difficult. Notwithstanding the difficulties faced this year, however, the retirement system continues to meet its responsibilities. The 2023 administrative budget is designed to continue to meet the needs of the retirement system members while also keeping expenses to a reasonable amount. ERRS has developed a reputation of one the most effective and efficient public retirement systems in the Commonwealth and the proposed budget described herein is programmed to continue that success in 2023.

Sincerely,



Charles E. Kostro  
Executive Director



## **MASSACHUSETTS PUBLIC RETIREMENT SYSTEMS**

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

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

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

Any member, whose earnings fall below \$5,000, will not receive service credit for the period of time their earnings fall below this threshold, however, they are still obligated to continue to contribute to the retirement system. Any contributions made by a member during a period during which their earnings fell below \$5,000, will have these contributions returned to them at the time of retirement.

ERRS was founded as part of Essex County government in 1937 and became a regional retirement system after the abolition of county government under changes made to Chapter 34B, Section 16, in 1996. Massachusetts General Law (MGL) Chapter 131 of the Acts of 2010 established the new Essex Regional Retirement System.<sup>1</sup>

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. The Board is required to meet once per month, and regular meetings are typically held on the last Monday of each month. The regular meetings typically begin at 8:30 a.m. and are held at the retirement system offices. Meeting notices are posted on the ERRS website and distributed to the Town Clerks in all of the municipalities that are member units of the retirement system. Meeting postings and agendas are typically posted on the Tuesday of the week prior to the Monday meeting.

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

Current ERRS Board members are:

First Member:	Andrew J. Sheehan	Term Expires: 12/01/2023
Second Member:	Kevin A. Merz	Term Expires: 12/01/2024
Elected Member:	Katherine E. Carleton	Term Expires: 12/01/2025
Elected Member:	Susan J. Yaskell	Term Expires: 12/01/2025
Fifth Member:	Vincent R. Malgeri	Term Expires: 12/12/2025

The day-to-day operations of the retirement system are managed by the Executive Director. The retirement system staff consists of six full-time employees who provide a variety of retirement system services. These services include enrolling new members, processing the purchases of prior service, posting members retirement contributions during their active employment, calculating benefits at the time of retirement, and administering survivor benefits.

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

As of December 31, 2021, the retirement system had 2,000 retirees and beneficiaries, 2,933 active participants and 1,197 inactive participants with a vested right to retirement benefits or to receive a refund of their contributions. Total membership in the Essex Regional Retirement System as of December 31, 2021, is 6,291 members, retirees, and beneficiaries.

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

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

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

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

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

do business in Massachusetts. The MACRS program for ERRS provides \$50,000,000 fiduciary protection for trustees (Board members and also known as trustees of the retirement system) and employees, as well as a \$1,000,000 fidelity policy for crime coverage.

As of December 31, 2021, the retirement system had an actuarial value of assets totaling \$634,937,450. The retirement system invests 99% of its assets in the Pension Reserve Investment Trust (PRIT) Fund. The PRIT Fund is administered by the Pension Reserves Investment Management (PRIM) Board. The balance of its assets are held in private managed funds that are in the process of closing out or are in cash accounts.

The Board has set the assumed rate of investment return at 7.00% with a full funding target date of 2035.

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

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

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

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

In April of 2021, PERAC released an audit of ERRS covering a five-year period from 2015 through 2019. This audit found the retirement system's finances fully compliant and, remarkably for a review of five years, did not contain a single audit finding. This most recent PERAC audit is also available on the ERRS website.

The ERRS annual spending plan presented here is separated into two general sections. These two sections are the (1) administrative budget and (2) the estimated spending on non-discretionary

accounts. Administrative costs include all personnel, contracted professional services, legal, building, and administrative expenses. The retirement system is required to present the administrative budget to the Advisory Council each year. The Advisory Council does not approve or disapprove of the administrative budget, it merely votes to certify that it has been presented as required. However, the Essex Regional Retirement Board has made it a practice to present the annual administrative budget to the Advisory Council in advance of final approval. The Board does this so that any feedback from the Advisory Council can be incorporated into the final budget plan.

Non-discretionary costs are those expenses ERRS is mandated by law to pay, or whose costs are calculated on a basis points (bps) formula depending on the amount of assets under control at the time of billing. A retirement system has no control over the payment of benefits, which are set by statute, or the payment of fees based on a bps calculation which are, in the case of the PRIT Fund, also established by statute. Other transactions included in this section are items such as payments to other retirement systems pursuant to Massachusetts General Law (MGL) Chapter 32, Section 3(8)(c), or the refund or transfer of member accounts, whose distribution is also controlled by MGL Chapter 32.

## **2022 ADMINISTRATIVE BUDGET**

### **SALARIES**

#### **Board Stipend**

Board members are paid an annual stipend of \$4,500 which is paid out in twelve equal, monthly installments. The stipend was increased from \$3,000 to its current amount of \$4,500 by a vote of the Advisory Council on April 30, 2014. This is the maximum amount permitted by law for a retirement board member stipend, so there is no increase in this line-item for 2022.

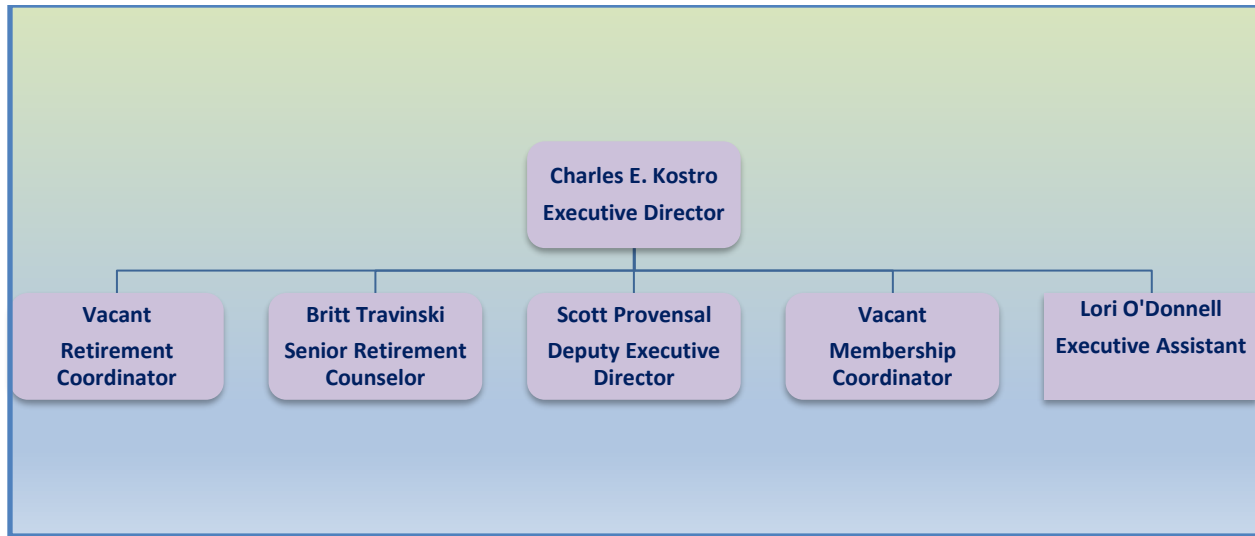
#### **Employee Salaries**

The 2023 ERRS budget request for employee salaries is \$590,619. This is a 9.9% increase in the overall employee salaries line-item compared to the 2022 budget. This increase reflects the new salaries needed to attract new employees to fill vacant positions, and the promotions made to existing employees during 2022.

ERRS has had to make significant upgrades in employee salaries in order to keep the retirement system staffed. Ironically, 2022 was the first time in three years that ERRS began the calendar year fully staffed. In fact, ERRS has lost two or more employees every year since 2017, with the exception of 2021, when only one employee left.

For years, ERRS kept salaries level or even reduced salaries from one year to the next. The retirement system has paid a heavy price in turnover and loss of experience as a result. (Presently, only two employees have been with ERRS for more than six months.) Just to put in perspective how deep the reductions were, and how little salaries have grown over the past decade, the 2009 retirement system salary budget was \$565,025, just \$25,000 less than the proposed 2023 salary budget.

The current ERRS organization chart is on the next page. The chart below reflects full-time employees. Not shown is a Retirement Associate position. The Retirement Associate is a part-time, two day per week employee who is currently assisting the retirement system until its' full-time positions are filled.



## **LEGAL EXPENSE**

The Essex Regional Retirement Board employs the Law Offices of Michael Sacco as counsel to the retirement system. ERRS' legal counsel does not just handle legal appeals for the retirement board. Counsel also serves as the hearing officer for disability cases and writes legal opinions guiding the Board on the applicable legal standards for disability applications. The disability application process is lengthy and complex. Legal services to assist the Board in this process are often costly, but also result in applications that are thoroughly reviewed prior to approval or denial.

In 2016, ERRS set its legal budget at \$65,000, but in actuality spent in excess of \$100,000 that year. In 2017, the legal budget was raised to \$75,000 and then to \$80,000 in 2018. The legal budget was reduced to \$75,000 in 2019, where it has remained through 2020 and 2021. The legal budget was further reduced to \$63,000 in 2022, based on actual spending in 2021.

However, the legal budget is on pace in 2022 to be approximately 75% over budget. There are presently fifteen pending disability applications. This amount represents the most pending disability applications ERRS has had on-going at any one time in the past ten years. Since most of these applications will be processed in 2023, ERRS is recommending a 50.8% increase in the legal budget, to \$95,000 in 2023. These monies will only be spent if needed. If legal services are not needed to this extent in 2023, all of the funds will not be spent.

The Other Legal Expense line-item in this section funds advertisements for procurements. Based on the current schedule for ERRS contracts, we are recommending continuing to fund this item at \$500.

## **MEDICAL RECORDS EXPENSE**

Medical Records Expense generally pays for pre-employment physicals for newly hired employees. In August of 2022, the Board determined that pre-employment physicals were no longer a requirement for new hires. This line-item, therefore, has been zeroed out in 2023.

## **FIDUCIARY INSURANCE**

Fiduciary liability coverage is for the trustees (Board members) and staff who oversee retirement systems and public employee pension funds against violations of their fiduciary responsibilities. Purchasing fiduciary insurance is 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.

ERRS has historically anticipated 3% increases each year for the payment of the fiduciary insurance coverage. This 3% increase was applied to the actual premium from the prior year, not the budgeted amount. Using this same formula applied to the 2022 premium, ERRS believes that no increase is necessary for this line-item in 2023.

## **SERVICE CONTRACTS**

This section contains multiple, sub-line-items, each of which is discussed separately below.

**Copy Machine Service Agreement:** The copy machine used by ERRS is under a lease agreement using a state-issued contract. A new lease agreement, via a state-issued contract, was entered into in 2022. Based on the terms of the new lease agreement, the amount in this line-item has been increased for 2023 by \$500.

**Postage Machine Lease:** The postage machine used by ERRS for mailing correspondence is also on a lease agreement. This lease agreement is on-going and there is no change in this line-item for 2023.

**Alarm System:** ERRS pays twice per year for its office security system. This is a predictable cost year-after-year, so there is no change in this line-item in 2023.

**Storage Facility:** Years ago, the retirement board began to store documents off-site. The cost for this off-site storage has been escalating rapidly in recent years. To keep up with the rising costs of this service, this line-item has been increased by 24.4% in 2023.

**Web Hosting:** This is for the support service for hosting the ERRS website. ERRS renewed this agreement in 2020 and pays an annual fee for this service. There is a 5% technology fee increase built into the lease and this has been accounted for in the 2023 budget.

**Database Software:** Like all retirement systems, ERRS maintains a database of its members' accounts. This database contains everything that affects a member's retirement, including their total contributions over their years of employment, their total creditable service, contact information, beneficiary selection information, dependents, etc. This database is essential to the retirement system's operations.

In addition, ERRS also utilizes the current database to perform all financial and accounting functions, including the processing of refunds, the transfer of member accounts into and out of the retirement system, and the production of the required monthly financial reports submitted to our state oversight agency, PERAC.

Since 2012, ERRS has contracted with Pension Technology Group (PTG) for the provision of its database services. In 2018, ERRS added to the basic member and accounting database service, a new deduction posting function, known as the employer reporting module. ERRS has repeatedly bid for the provision of its database services, but PTG is the primary provider of this service to over 70 of the 104 Massachusetts retirement systems and has been the only bidder in each of the procurements conducted by ERRS.

The current agreement with PTG began on July 1, 2017 and contained an end date of June 30, 2020. Per the terms of the agreement, the Board extended this agreement for another two years, and the current agreement now expires on June 30, 2022. An RFP was issued in 2022 and PTG was again the only bidder for this service. The year one price for the new database support services agreement was paid in 2022. The amount in this line-item for 2023 represents the year two price contained in the response to the database services RFP.

ERRS has also received a proposal for another potential improvement to the current database service. This added service would provide for the electronic posting of insurance premium withholding changes to retirees' benefit payments. Processing these changes electronically rather than manually should be more efficient for both the units and the retirement system.

The Board determined not to accept the original price of \$13,000 for this service that was contained in the response to the RFP. This price was negotiated down to \$10,000, which the Board determined was still not acceptable. Therefore, this service will not be implemented in 2022.

**PBI Contract:** ERRS contracted a few years ago for a service which provides the retirement system with notices of a retiree's passing. This allows ERRS to stop benefit payments as soon as a member passes. This service helps avoid the continuation of benefit payments when they should have been stopped, not only saving the retirement system money, but saving the retiree's family from having to repay any over payments. The cost for this service has been relatively consistent since it was first implemented, and no change is proposed in 2023.

The total budget for all Service Contracts in 2022 is \$70,340. This is a reduction of 11.9%, due primarily to the elimination of the insurance portal for the database software.



## **CONDOMINIUM EXPENSE**

ERRS owns two office suites at the Hathorne Office Park located in Danvers, MA. These properties were purchased in 2000 for \$185,000 and \$190,000 apiece.<sup>3</sup> Hathorne Office Park is an office condominium complex and ERRS is a member of the Hathorne Condominium Office Park Trust. The office park is managed by Gemini Properties. As a member of the condominium trust, ERRS pays a monthly condominium fee.

While there has been a fairly significant amount of capital projects undertaken by the condominium trust in recent years, the monthly condominium fee has remained relatively stable. However, inflation and increased costs for basic services and supplies have increased the condominium fee in 2023. Based on the recently approved condominium budget, this line-item has been increased to \$20,000, an increase of 7.2% compared to 2022.

ERRS has insurance on its two office suites. This insurance has come in handy in recent years, as ERRS has experienced at least three flooding episodes which resulted in damage to the offices, and which required thousands of dollars in repairs. Nearly all of the cost of these repairs were paid by the insurance company.

The cost of the building insurance has risen in recent years. In anticipation of another inflationary increase in 2023, ERRS is recommending an 8.7% increase in this line-item.

In addition to the repairs necessitated by flood damage, ERRS continues to encounter problems with its aging office suites. In 2021, an emergency repair was necessary to the HVAC system in Suite 201, costing slightly under \$10,000. As only \$1,250 was budgeted in the maintenance and repair line-item, this cost was covered by a transfer from the reserve fund. In 2022, ERRS experienced another leak in Suite 201 due to a failed drain line for the hot water heater for that office. This repair cost \$2,629, more than double the maintenance and repair budget. Based on recent experience, therefore, ERRS is recommending a \$1,750 increase in this line-item in 2023.

Overall, ERRS is recommending a \$3,400 increase in this section of the budget for 2023.

## **PROFESSIONAL SERVICES**

Please find below a description of the three line-items that comprise the professional services portion of the administrative budget.

**Public Pension Alliance:** ERRS was forced to use a temporary staffing service in 2022. This line-item was added since this firm will have an expense in the 2022 budget, but no monies are being appropriated for this service in 2023.

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<sup>3</sup> Deeds are recorded at the South Essex Registry of Deeds, BK 16422, PG 520, and BK 16422, PG 525.

**Actuarial Consulting Fees:** In 2017, ERRS conducted a procurement for the provision of actuarial services, and selected Segal Company as the system's actuary. Every retirement system is required to conduct an actuarial valuation every two years. In between the years of the full valuation, retirement systems are required to provide reports on the cost of the retirement system as required by the Governmental Accounting Standards Board (GASB). GASB is a private, nongovernmental body that is charged with setting accounting guidance for state and local governments. In 2012, GASB updated its guidance for the reporting and measurement of public pension plan data, and in fiscal year 2015, state and local governments began to adopt the new standards, known as GASB 67 & GASB 68. The GASB 67 & 68 report is completed every year and is included as part of the annual audit of the retirement system's financial statements.

The cost of actuarial services fluctuates from year-to-year depending on if it is a year in which a full valuation is conducted, or a year in which only the GASB 67 & 68 report is provided. As part of the agreement with Segal Company, a fee schedule was provided for the term of the contract. This fee schedule provides a cost for the years in which a full valuation is conducted, and a much smaller cost for those years in which only the GASB 67 & 68 report is provided.

A full valuation of ERRS was completed in 2022. Therefore, the cost of actuarial services in 2023 will drop to \$6,000 per the existing agreement. This amount will cover the GASB 67 & 68 report.

**IT Consulting Services:** ERRS has employed HIQ Consultants as its IT vendor since 2015. HIQ is currently providing IT consulting services to the retirement system via a state issued contract. The cost of providing IT consulting services to ERRS is fee based and is billed as the services are provided.

The hiring of multiple new staff and all that is associated with that transition, as well as continued upgrades in IT security systems provided by the consultant, has increased the cost of this service. In addition, ERRS was notified in December of 2022 that its' server needs to be replaced due to age, and that there is a needed Microsoft upgrade that must be implemented. These two initiatives will cost approximately \$10,000. However, ERRS is facilitating the server replacement in December 2022, so only Microsoft upgrade needs to be funded in 2023. ERRS is planning to add \$7,500 to this line-item to meet its' IT needs in 2023.

**Annual Audit:** Since 2012, ERRS has retained Powers & Sullivan, an independent CPA firm, to conduct annual financial audits of the retirement system. Originally, ERRS was one of a few retirement systems to employ a private CPA firm to conduct annual financial audits (PERAC conducts audits of retirement systems every three years), but in light of the GASB 67 & 68 requirements, many more public retirement systems now employ CPA firms.

The cost of the annual audit is \$40,000 per year for the entirety of the agreement. Therefore, there is no change in the annual audit budget in 2022.

In total, the Professional Services budget in 2023 is 21.9% less than in 2022.

## **EDUCATION AND TRAINING**

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

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

The majority of expense in this line-item has been for registration for the annual spring MACRS conference held each year on Cape Cod. The conference was not held, or was held remotely during the pandemic, but returned to in-person in 2022. The amount budgeted for this line-item in 2023 represents the estimated registration cost for the MACRS Conference for four ERRS Board or staff members.

## **ADMINISTRATIVE EXPENSES**

**Health, Life and Dental Insurance:** Inflation and changes in staff have continued to increase the cost of insurance at ERRS. As a result, ERRS is recommending an increase of 11.1% in this line-item for 2023.

**Medicare Tax:** The retirement system's contribution to Medicare also has increased dramatically in recent years. Using the actual charges in 2022 as a baseline, ERRS is requesting an 12.5% increase in this line-item for 2023.

**Unemployment Insurance Charges:** The retirement system is a non-contributory employer, and this line-item covers only the insurance portion of the unemployment tax. Based on spending in 2022, ERRS is requesting an increase of 70% in this line-item, although the actual dollar increase is only \$350.

**Workers Compensation Insurance:** ERRS did increase its workers compensation coverage in 2022 but based on the actual premium amount for this year there is no increase in this line-item for 2023.

**Postage:** ERRS has tried to find ways to reduce its mailing costs in recent years, but these efforts have not met with much success. Legal requirements and other required notices make increased use of electronic communications of limited value. Based on actual costs in 2022, ERRS is recommending an increase of 66.7% in this line-item for 2023.

**Telephone/Internet:** In recent years, ERRS undertook long overdue upgrades for its phone system and internet service. Although costs increased in recent years, ERRS is recommending only a minimal 2.2% increase in this line-item for 2023.

**Dues:** Over the years, ERRS has had to eliminate membership in every association other than MACRS. This line-item now only funds the annual MACRS dues. In 2019, the MACRS dues increased from \$400 to \$600. A further increase in dues is not anticipated in 2203, thus this line-item remains at \$600.

**Newsletter Expense:** During the discussion of the preliminary 2023 budget, the Board increased this line-item to \$10,000 in an effort to fund two newsletters per year. This amount represents a \$5,000 increase compared to the 2022 budget.

**Office Supplies:** ERRS has tried to reduce its office supply budget as often as possible. But increases in members, retirees and inflation have made it necessary to increase this line-item based on actual costs. Therefore, there is a 36.4% increase recommended in this line-item for 2023.

**Electricity:** ERRS' electricity is supplied by the Town of Danvers electric department. Based on actual expenses over the past few years, no change in this line-item in 2023.

**Retirement Appropriation:** As mentioned in the introductory summary, this cost has been removed from the administrative budget. This is because the expense was not a cash payout, but the assessment that was recorded on the ERRS balance sheet. The Board voted to remove this expense from the annual appropriation in October of 2022. Therefore, this amount has been removed from the administrative budget.

By way of background, several years ago, PERAC and the ERRS auditors recommended eliminating this line-item from the annual administrative budget, since the retirement system appropriation is not a cash payment. Therefore, the retirement system is actually losing money, which results in a higher appropriation for all units over time. Further, the units pay this cost eventually anyway, as the administrative cost of the retirement system is funded through investment earnings

To ensure a proper comparison, retirement appropriation expenses have been removed from the years used to compare the administrative budget cost changes.

**Employee Payroll Services:** ERRS uses Harpers Payroll Services to process its employee payroll. There has been little change in costs in recent years, but based on actual expenditures in 2022, ERRS is recommending a slight increase in this line-item in 2023.

**Election Expense:** There is no system-wide election in 2023 so no amount is appropriated for this line-item.

**Cleaning Services:** The current vendor's contract for cleaning services will have to be extended or rebid in 2022. Since costs are not known at this time, a slight increase of \$300 is recommended for this line-item for 2023.

In total, administrative expenses increase in 2023 by 8.3%.

## **FURNITURE AND EQUIPMENT**

This account funds furniture or equipment needs of the retirement system (computer purchases are allocated to the IT consulting line-item.) Other than purchasing new office chairs several years ago to replace worn, broken and torn chairs, ERRS has made no other upgrades to its office furnishings in years. In the hopes that some upgrades may be possible in 2023, ERRS is requesting that \$5,000 be allocated to this line-item.

## **TRAVEL**

The COVID-19 pandemic effectively ended any Board member or staff travel. Since some travel is returning, ERRS is recommending a slight increase in this line-item for 2023 of \$1,000.

## **RESERVE FUND**

ERRS was forced to cut its reserve fund by \$10,000 in 2020 as part of keeping the budget level funded. The reserve fund was partially restored in 2021, when it was raised to \$47,035. Both amounts are below the traditional amount of \$50,000 normally budgeted for the reserve fund.

Given the current inflationary environment, ERRS is recommending that the reserve fund be returned to its traditional amount of \$50,000 in 2023.

## **TOTAL ADMINISTRATIVE BUDGET**

The total administrative budget for 2023, is proposed at \$1,094,859, which is an increase of 8.7% compared to the administrative budget for 2022. This increase reflects the need to retain and attract employees after several years of high turnover and is consistent with the current rate of inflation.

## **SPENDING PLAN ESTIMATES FOR 2021**

### **INVESTMENT MANAGEMENT FEES**

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

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

As assets move from the privately managed funds to the PRIT Fund, and as ERRS' assets managed by the PRIT Fund continue to grow, the fees charged by the PRIT Fund increase. Based on actual expenditures in 2022, ERRS is recommending a small decrease in the fees for private fund managers and a 7.1% increase in fees for PRIT. The PRIT increase is consistent with the retirement system's 7.0% assumed rate of return in the most recent valuation.

### **OTHER EXPENSE**

#### **Capital Calls**

Based on the comments of the few remaining private fund managers during their annual meetings with the Board in 2022, ERRS does not expect to have to meet any capital calls in 2023.

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

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

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

The State Retirement Board and the Massachusetts Teachers Retirement System has had a backlog of disputed or undocumented 3(8)(c) charges for some years. In 2021, steps were taken to clear

up many of these charges and since this time the charges to ERRS have been relatively stable. Therefore, there is no change in the projected 3(8)(c) for 2023.

### **Refunds and Transfers**

This line-item tracks the amount refunded to former members of the retirement system who have resigned or otherwise left service. In addition, it includes the amounts transferred to another retirement system when a member leaves service at ERRS and becomes a member in another qualified public pension system. A member who separates from service with an employer unit of ERRS and becomes employed in another public retirement system in Massachusetts is required by law to have their service and deductions transferred to their new retirement system. The amount refunded or transferred reflects the amount of the 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.

Refunds and transfers have continued to increase in recent years. ERRS is recommending that the estimated spending on this line-item be increased by 3.3% in 2023.

### **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 as provided by the retiree's last employer.) The retirement benefit payroll amount in the expenditure report 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.

With the increase in the number of retirees in recent years, and with the increase in the COLA base to \$16,000 in Fiscal Year 2023, ERRS is recommending that the estimated spending on retirement benefits be increased by 6.5% in the 2023 spending plan.

The total increase in all spending in 2023, which includes the proposed administrative budget and the estimated spending plan, is 6.2%.

## **QUESTIONS/COMMENTS**

If you have any questions or comments about the 2023 administrative budget, please do not hesitate to contact Charles E. Kostro, Executive Director, at (978) 739-9151, extension 105, or via email at [ckostro@essexrrs.org](mailto:ckostro@essexrrs.org).

Also, all ERRS agendas and meeting minutes are also posted to the retirement system's website at [www.essexregional.com](http://www.essexregional.com). The Essex Regional Retirement Board meetings are held at the retirement system offices. The final, approved budget will also be posted to the Fiscal Reports page on the website when it is approved by the Board, which is typically at its December meeting.