

ESSEX REGIONAL RETIREMENT BOARD *2024 ADMINISTRATIVE BUDGET AND SPENDING PLAN*

BOARD MEMBERS

TRACY A. BLAS, 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

2024 ADMINISTRATIVE BUDGET SPREADSHEET

Please find below the detailed, line-item spreadsheet for the administrative budget of the Essex Regional Retirement System (ERRS) for 2024. This spreadsheet includes all retirement system spending, including non-administrative items such as the retiree payroll, refunds, transfers, etc.

The line-item 2024 ERRS administrative budget is below.

Account	2022 Budget	2023 Budget	2024 Proposed	\$ Change 2023 to 2024	% Change 2023 to 2024
Salaries	2022	2023	2024	\$ Change	% Change
Board Stipend	22,500	22,500	22,500	-	0.0%
Employee Salaries	537,282	590,619	608,584	17,965	3.0%
Subtotal	559,782	613,119	631,084	17,965	2.9%
Legal Expense	2022	2023	2024	\$ Change	% Change
Michael Sacco, Attorney at Law	63,000	95,000	90,000	(5,000)	-5.3%
Other Legal Expense	500	500	500	-	0.0%
Subtotal	63,500	95,500	90,500	(5,000)	-5.2%
Medical Records Expense	2022	2023	2024	\$ Change	% Change
Medical Records Expense	175	-	-	-	0.0%
Subtotal	175	-	-	-	0.0%
Fiduciary Insurance	2022	2023	2024	\$ Change	% Change
Fiduciary & Other Insurance	37,500	37,500	45,000	7,500	20.0%
Subtotal	37,500	37,500	45,000	7,500	20.0%
Service Contracts	2022	2023	2024	\$ Change	% Change
Copy Machine Service Agreement	3,100	3,600	3,450	(150)	-4.2%
Postage Machine Lease	3,800	3,800	4,240	440	11.6%
Alarm System	525	525	550	25	4.8%
Storage Facility	6,250	7,775	9,000	1,225	15.8%
Web Hosting	3,000	3,350	3,750	400	11.9%
Database Software	49,000	49,090	50,975	1,885	3.8%
Database Software - Insurance	12,000	-	-	-	0.0%

PBI Contract	2,200	2,200	2,260	60	2.7%
Subtotal	79,875	70,340	74,225	3,885	5.5%
Condominium Expense	2022	2023	2024	\$ Change	% Change
Monthly Condominium Fees	18,650	20,000	20,955	955	4.8%
Building Insurance	3,450	3,750	4,000	250	6.7%
Maintenance and Repair Expense	1,250	3,000	2,000	(1,000)	-33.3%
Subtotal	23,350	26,750	26,955	205	0.8%
Professional Services	2022	2023	2024	\$ Change	% Change
Actuarial Consulting Fees	32,000	6,000	33,000	27,000	450.0%
Board Secretary	-	-	3,500	3,500	100.0%
IT Consulting Services	12,500	20,000	13,920	(6,080)	-30.4%
Annual Audit	40,000	40,000	40,000	-	0.0%
Subtotal	84,500	66,000	90,420	24,420	37.0%
Education & Training	2022	2023	2024	\$ Change	% Change
Education and Training	1,000	2,600	1,000	(1,600)	-61.5%
Subtotal	1,000	2,600	1,000	(1,600)	-61.5%
Administrative Expenses	2022	2023	2024	\$ Change	% Change
Health, Life and Dental Insurance	54,000	60,000	80,000	20,000	33.3%
Medicare Tax	8,000	9,000	7,950	(1,050)	-11.7%
Unemployment Insurance	500	850	850	-	0.0%
Workers Compensation Insurance	800	800	800	-	0.0%
Postage	7,500	12,500	12,500	-	0.0%
Telephone/Internet	6,850	7,000	7,000	-	0.0%
Dues	600	600	650	50	8.3%
Newsletter Expense	5,000	10,000	12,500	2,500	25.0%
Office Supplies	11,000	15,000	15,000	-	0.0%
Electricity	3,400	3,400	3,400	-	0.0%
Retirement Appropriation	-	-	-	-	0.0%
Employee Payroll Services	2,000	2,200	2,350	150	6.8%
Election Expense	10,000	-	-	-	0.0%
Cleaning Services	3,400	3,700	3,700	-	0.0%

Subtotal	113,050	125,050	146,700	21,650	17.3%
Furniture & Equipment	2022	2023	2024	\$ Change	% Change
Capital Account	-	5,000	2,500	(2,500)	100.0%
Subtotal	-	5,000	2,500	(2,500)	0.0%
Travel	2022	2023	2024	\$ Change	% Change
Travel	2,000	3,000	4,000	1,000	33.3%
Subtotal	2,000	3,000	4,000	1,000	33.3%
Reserve Account	2022	2023	2024	\$ Change	% Change
Reserve Fund	42,396	50,000	50,000	-	0.0%
Subtotal	42,396	50,000	50,000	-	0.0%
Total Operating Expense	1,007,128	1,094,859	1,162,384	67,525	6.2%
Investment Management Fees	2022	2023	2024	\$ Change	% Change
Investment Management Fees	25,000	20,000	10,000	(10,000)	-50.0%
PRIT Fund Management Fees	3,175,000	3,400,000	3,750,000	350,000	10.3%
Subtotal	3,200,000	3,420,000	3,760,000	340,000	9.9%
Subtotal All Expenditures	4,207,128	4,514,859	4,922,384	407,525	9.0%
Other Expense	2022	2023	2024	\$ Change	% Change
Capital Calls	50,000	-	-	-	0.0%
3(8)c payments	3,100,000	3,100,000	3,400,000	300,000	9.7%
Refunds and Transfers	3,750,000	4,000,000	4,750,000	750,000	18.8%
Retirement Benefit Payroll	54,000,000	57,500,000	61,000,000	3,500,000	6.1%
Subtotal	60,900,000	64,600,000	69,150,000	4,550,000	7.0%
Total All Expenditures	65,107,128	69,114,859	74,072,384	4,957,525	7.2%

EXECUTIVE DIRECTOR SUMMARY

The draft administrative budget presented for 2024 reflects an overall increase of 6.2%. The increase is driven primarily by increases in two line-items, insurance, and actuarial consulting. Without the increases in these two line-items, total administrative spending would only increase by 3%. The increase in the actuarial consulting expense is because 2024 is a year in which the retirement system must, by statute, conduct a valuation study (which is explained in greater detail in the section on Professional Services.) The other major increase is in health insurance costs, which are estimated to grow by 33.3% in 2024.

Employee salaries continue to represent the largest item in the administrative budget, comprising 52% of all administrative spending. Overall, however, the total increase in employee salaries in 2024 is 3.0% compared to 2023.

ERRS is also on track to again be under-budget in 2023. If this is so once all expenses in 2023 are tabulated, this will mark the thirteenth consecutive year that administrative spending at ERRS is under-budget.

The following narrative contains a description of each line-item in the budget.

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.¹

ERRS is governed by a five-member Board who establishes 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.

¹ 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:	Tracy A. Blais	Term Expires: 12/01/2026
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, 2022, the retirement system had 2,096 retirees and beneficiaries, 3,210 active participants and 1,087 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, 2, is 6,393 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.²

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 do business in Massachusetts. The MACRS program for ERRS provides \$50,000,000 fiduciary

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

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.

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 privately 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.

The 2022 GASB 67 & 68 report showed the retirement system with a net pension liability of \$464,018,998, an increase from \$347,248,109 in 2021. As of December 31, 2022, the retirement system was 57.57% funded, a decrease from 67.01% funded as of December 31, 2021.

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

The ERRS annual spending plan presented here is separated into two general sections. These two sections are the (1) administrative budget and (2) the estimated spending on non-discretionary accounts. Administrative costs include all personnel, contracted professional services, legal, building, and administrative expenses. 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.

2024 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 \$608,584. This is a 3.0% increase in the overall employee salaries line-item compared to the 2023 budget. The details of the pay for each position for the past two years is listed in the spreadsheet below.

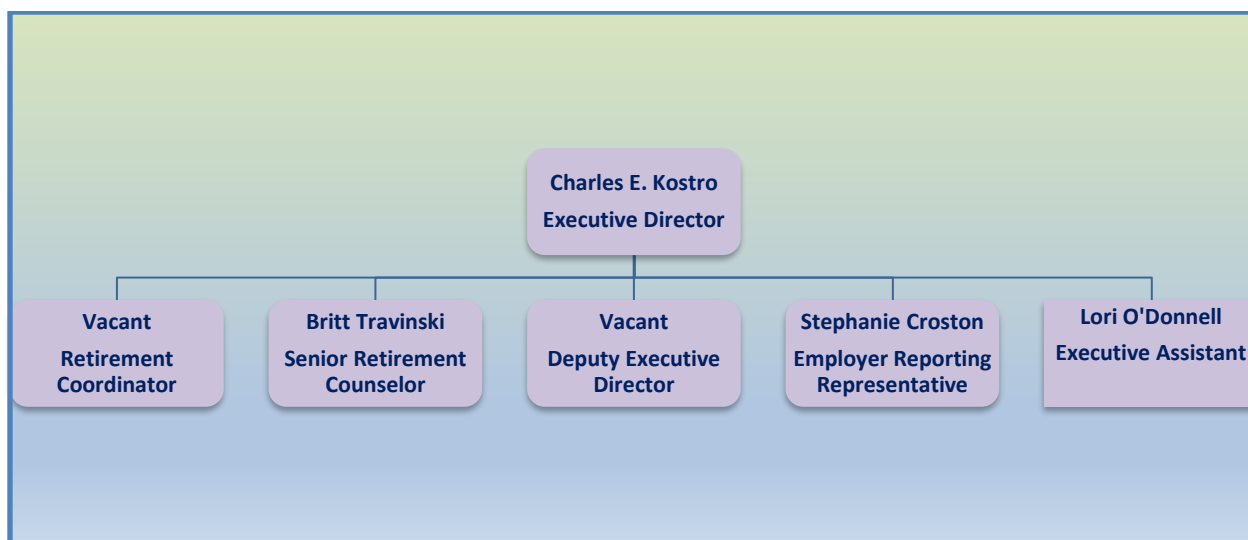
ERRS EMPLOYEE SALARY LINE-ITEM 2023 – 2024

Positions	2023 Salary Budget	2024 Salary Budget	2023 \$ Change	2023 % Change
Executive Director	158,619	162,584	3,965	2.5%
Deputy Director	110,000	115,000	5,000	4.5%
Senior Retirement Counselor	100,000	105,000	5,000	5.0%
Retirement Counselor	79,000	85,000	6,000	7.6%
Employer Reporting Representative	70,000	75,000	5,000	7.1%
Executive Assistant	58,000	65,000	7,000	12.1%
Salary Reserve	13,000	-	(13,000)	-100.0%
Longevity	2,000	1,000	(1,000)	-50.0%
	590,619	608,584	17,965	3.0%
		3.0%		

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. Even with some effort being made to address the salary issues at ERRS in recent years, the past three years have seen an average increase in salaries of only 4%. By comparison, the average annual inflation rate in the United States over the same period has been 5.86%. While the proposed salary increase for ERRS employees is 3% for 2024, the Consumer Price Index from 2022 to 2023 was 4%, according to the Bureau of Labor Statistics. By further comparison, according to the annual salary

surveys filed with the retirement system, wage growth from 2020 to 2022 in the governmental units that are members of the retirement system has been 8.4%. After years of little to no growth in employee salaries, the recent efforts to increase employee wages at the retirement system still fall behind the rate of inflation, the cost-of-living, and the wage increases of other governmental employers.

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 will assist the retirement system until its' full-time positions are filled, if approved by the Board at its September meeting.



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 manage 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.

Since 2022, however, there has been an explosion in disability applications at ERRS. In April of 2021, for instance, ERRS had eight active disability applications. Presently, ERRS has seventeen

disability applications pending, double the number of active disability applications from two years ago. The increase in active disability cases results in a corresponding increase in legal fees.

In light of the continued increase in active disability applications, the legal budget was increased to \$95,000 in 2023. At one point in 2023, ERRS was processing seventeen active disability applications, easily the highest number of active disability cases at any one time in the past decade. Despite being short-hand for most of 2022, ERRS managed to successfully process six of these applications to completion, reducing the current active caseload to eleven. In light of this progress and the reduction in active disability cases, ERRS is recommending a small decrease in the legal services budget for 2024.

The Other Legal Expense line-item in this section funds advertisements for procurements. Based on the current schedule for ERRS contracts, we recommend 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.

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.

In 2023, the Board decided to pursue other insurance to further protect the retirement system. As this insurance is a matter discussed only in executive session, it cannot be discussed publicly in this narrative. The estimated cost of this additional insurance has been added to this line-item resulting in an increase of \$7,500 in 2024.

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.

Postage Machine Lease: The postage machine used by ERRS for mailing correspondence is also on a lease agreement.

Alarm System: ERRS contracts with an alarm company for security in its office suites.

Storage Facility: Years ago, the retirement board began to store documents off-site. ERRS has not added to the number of documents stored off-site during the past thirteen years. However, the cost for storing the old documents off-site has been escalating rapidly in recent years.

Web Hosting: This is for the support service for hosting the ERRS website. ERRS renewed this 2023. The agreement provides for a 5% escalation in fees each year, which has been factored into the 2024 budget, along with any other support costs that may occur during the year.

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 was approved by the Board in 2023. It is a five-year agreement with a Board option for an additional two years. The amount in this line-item for 2024 reflects the year two cost per the agreement approved by the Board in 2023.

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.

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.³ 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 become an issue in recent years. The budget for this line-item reflects the increase in fees approved by the Condominium Board in the fall of 2023.

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 was paid by the insurance company.

The cost of the building insurance has risen in recent years. In anticipation of another inflationary increase in 2024, ERRS is recommending a 6.7% increase in this line-item, which is only \$250.

ERRS has spent a great deal in recent years to deal with infrastructure issues in its office. However, 2023, was a relatively benign year for maintenance work, and this item is reduced in 2024.

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

PROFESSIONAL SERVICES

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

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. By law, ERRS must conduct a full valuation study in 2024. This study is included in the current agreement with Segal Company and the amount of the study for the upcoming year is included in this line-item. The requirement to conduct a full valuation study in 2024 will cost \$33,000 in 2024. This is a \$27,000 increase in this line-item, the largest increase line-item increase in the proposed 2024 administrative budget.

Board Secretary: Until 2016, ERRS employed a Board Secretary to take the minutes of the Board and Advisory Council meetings. The Board did not support continuing this service and this task became the responsibility of ERRS staff for the past seven years. In 2023, the Board decided to revisit hiring a Board Secretary/Minute Taker and this position was advertised in November of 2023.

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, with a supplemental agreement directly between HIQ and ERRS. The cost of providing IT consulting services to ERRS is fee based and is billed as the services are provided.

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.

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 2024 is significantly less than 2023 and is based on the actual costs incurred for the MACRS Conference in the current year.

ADMINISTRATIVE EXPENSES

Health, Life and Dental Insurance: With employees coming and going so frequently, it is difficult to discern any pattern in insurance costs. When fully staffed, ERRS has seen its quarterly costs rise in recent years, due both to inflation and to new employees joining the GIC.

Medicare Tax: The retirement system's contribution to Medicare also has increased dramatically in recent years, although it leveled off in 2023. ERRS has adjusted its 2024 budget for this item based on actual spending through November of 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 actual spending through November of 2023, ERRS is not requesting any increase in this line-item.

Workers Compensation Insurance: ERRS did increase its workers compensation coverage in 2022, but based on the actual premium amount for this current year there is no increase in this line-item proposed for 2024.

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 2023, ERRS is recommending no increase in this line-item for 2024.

Telephone/Internet: In recent years, ERRS undertook long overdue upgrades for its phone system and internet service. Although costs have increased in recent years, ERRS is recommending level funding in this line-item for 2024.

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, and in 2023 this fee increased by another \$50. ERRS is not aware of any further increases in the dues for MACRS in 2024, thus this line-item is only increased by \$50, to \$650 for next year.

Newsletter Expense: The cost to print and mail a newsletter twice each year has increased in recent years. Based on the actual cost to print and mail two newsletters in 2023, ERRS has adjusted this line-item accordingly. It should be noted that these newsletters have been written entirely in-house for several years, saving the retirement system tens of thousands of dollars.

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 in recent years. In light of recent increases, ERRS is not recommending another increase in 2024. This line-item remains level-funded for the upcoming budget year.

Electricity: ERRS' electricity is supplied by the Town of Danvers electric department. Based on actual expenses over the past few years, there will be no change in this line-item in 2024.

Retirement Appropriation: 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 from one budget year to the next, retirement appropriation expenses have been removed from prior years.

Employee Payroll Services: ERRS uses Harpers Payroll Services to process its employee payroll. There have been minor changes in costs in recent years, and based on actual expenditures in 2023, ERRS is recommending a slight increase in this line-item in 2024.

Election Expense: There is no system-wide election in 2024 so no amount is appropriated for this line-item.

Cleaning Services: ERRS conducted a procurement for cleaning services in 2023. The two-year agreement for this service did not include any increase in cost. Therefore, there is no increase in this line-item recommended for 2024.

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. There really is no plan to replace any of the aging furnishings at ERRS, or to paint the offices, which has not happened in more than twenty years. As a hedge against the need to replace furnishings that break during the year, however, ERRS is allocating a token amount of \$2,500 to this line-item.

TRAVEL

The only travel funded by this line-item is Board member travel to the MACRS Conference. In 2023, Board travel to MACRS was \$1,600 more than budgeted. Therefore, ERRS is recommending a 33.3% increase in this line-item for 2024.

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. In 2023, the Reserve Fund was restored to its normal level of \$50,000, and it is recommended to keep the budget at this level in 2024.

TOTAL ADMINISTRATIVE BUDGET

The total administrative budget for 2024 is proposed at \$1,162,384, which is an increase of 6.2% compared to the administrative budget for 2023. Although individual line-items have been adjusted since the fall, the total administrative budget is the same as that presented to the Advisory Council in October.

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. Continued increases in the fees paid to the PRIT Fund are included in the 2024 spending plan.

OTHER EXPENSE

Capital Calls

Capital calls for privately managed funds have ceased in recent years and ERRS is not anticipating any

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.

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. This was particularly true in 2023, as ERRS, despite being short-handed, cleared up a backlog of transfers that had been pending for some time. ERRS is recommending that the estimated spending on this line-item be increased again in 2024, although it will be less than what has actually been spent 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, the retirement system's benefit payroll continues to increase significantly. For instance, the August 2021 retiree benefit payroll was \$4,405,254. The August 2023 retiree benefit payroll was \$4,973,256. That is an increase of 13% in just two years.

One item that should be mentioned in light of the administrative budget and the spending plan items, but in 2022, ERRS began to take in more in revenue than it expends each year. This is the goal of every retirement system, and it is a positive sign that ERRS has achieved this important milestone.

QUESTIONS/COMMENTS

If you have any questions or comments about the 2024 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.

Also, all ERRS agendas and meeting minutes are also posted to the retirement system's website at 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.