

# PERAC AUDIT REPORT



Chelsea

Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2009



## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances .....	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income .....	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations .....	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions .....	11
Note 2 - Significant Accounting Policies .....	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System .....	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 26, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Chelsea Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2009. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Membership**

PERAC auditors sampled members' deductions to determine that the correct deductions are being withheld from all regular compensation. An inspection of the payroll register and payroll exception report disclosed that the pay codes for night shift differential, holiday pay, and the hazmat stipend were classified as exempt from retirement contributions. These pay types would appear to meet the requirements of Chapter 21 of the Acts of 2009 which states, "...compensation received exclusively as wages by an employee for services performed..." and PERAC Regulation 840 CMR 15.03 that defined "wages" as "other base compensation....pre-determined, non-discretionary, guaranteed payments.....because of the character of the work...because of the time at which the work takes place as a condition of employment in a particular position and payments for holding the training, certification, licensing or other educational incentives approved by the employer for the performance of services related to the position the employee holds." A finding similar to this was included in the previous audit report under the regulations that applied at that time.

**Recommendation:** The Board should review all pay codes to determine if they qualify as regular compensation in accordance with 840 CMR § 15.03. G.L. c. 32 § It specifically identifies public safety holiday pay as regular compensation for retirement purposes. Payroll clerks should be notified to change exemptions where necessary. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates.

### **Board Response:**

Night differential pay, holiday pay and hazardous material pay are included in the base payroll and are subject to retirement withholding. The codes reviewed by the auditors are exclusive to overtime and bonus pay that were correctly excluded from regular compensation. The titles of these pay codes did not identify this distinction. The City Auditor will make an effort to redefine the titles and pay code descriptions to avoid any confusion in the future.

## **2. Minutes of Board Meetings**

The auditor reviewed Board minutes from January 2008 to February 2011. During this period it was observed that minutes of executive session meetings were prepared on just one occasion although many disability cases were discussed and documented in detail in the regular Board minutes. The details of two formal executive sessions which took place in February 2009 and August 2010 were not recorded.

**Recommendation:** The Board must comply with the Open Meeting Law Guidelines as prescribed by the Attorney General of the Commonwealth which states in part that minutes of every executive session must be kept. In order to prevent HIPPA privacy law violations, it is recommended that the Board discuss the details of a member's medical condition in executive session. Please reference PERAC Regulation 840 CMR 10.12 3(e) Executive Session for guidance.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

***Board Response:***

The Chelsea Retirement Board will keep Executive Session minutes in a separate minute book in order to comply with the Massachusetts Open Law and the HIPPA privacy law and will discuss all medical issues in Executive Session.

**FINAL DETERMINATION:**

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

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2009	2008
<b>Net Assets Available For Benefits:</b>		
Cash	\$793,566	\$458,416
PRIT Cash Fund	200,099	225,293
PRIT Core Fund	62,814,262	51,760,652
Accounts Receivable	4,297,887	4,278,782
Accounts Payable	(15,486)	0
<b>Total</b>	<u>\$68,090,327</u>	<u>\$56,723,142</u>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$26,896,060	\$25,263,003
Annuity Reserve Fund	6,107,950	6,085,992
Pension Fund	11,859,087	10,979,321
Military Service Fund	2,390	2,378
Expense Fund	0	0
Pension Reserve Fund	23,224,840	14,392,448
<b>Total</b>	<u>\$68,090,327</u>	<u>\$56,723,142</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	\$23,697,028	\$5,948,120	\$9,798,007	\$2,364	\$0	\$37,108,466	\$76,553,985
Receipts	2,899,947	177,089	8,659,361	14	513,541	(22,721,130)	(10,471,177)
Interfund Transfers	(908,267)	903,156	0	0	0	5,112	0
Disbursements	(425,706)	(942,374)	(7,478,046)	0	(513,541)	0	(9,359,667)
Ending Balance (2008)	25,263,002	6,085,992	10,979,321	2,378	0	14,392,448	56,723,142
Receipts	2,877,155	179,033	8,768,578	12	584,970	8,832,391	21,242,140
Interfund Transfers	(905,294)	905,294	0	0	0	0	0
Disbursements	(338,804)	(1,062,369)	(7,888,812)	0	(584,970)	0	(9,874,955)
Ending Balance (2009)	<u>\$26,896,059</u>	<u>\$6,107,950</u>	<u>\$11,859,087</u>	<u>\$2,390</u>	<u>\$0</u>	<u>\$23,224,840</u>	<u>\$68,090,327</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Annuity Savings Fund:</b>		
Members Deductions	\$2,715,659	\$2,590,567
Transfers from Other Systems	39,289	124,343
Member Make Up Payments and Re-deposits	0	27,250
Member Payments from Rollovers	3,217	20,829
Investment Income Credited to Member Accounts	<u>118,989</u>	<u>136,957</u>
Sub Total	<u>2,877,155</u>	<u>2,899,947</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>179,033</u>	<u>177,089</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	104,062	81,895
	404,293	633,875
Pension Fund Appropriation	8,260,223	7,943,591
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>
Sub Total	<u>8,768,578</u>	<u>8,659,361</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>14</u>
Sub Total	<u>12</u>	<u>14</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>584,970</u>	<u>513,541</u>
Sub Total	<u>584,970</u>	<u>513,541</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	22,004	33,725
Pension Reserve Appropriation	0	0
Interest Not Refunded	8,849	1,271
Miscellaneous Income	5,512	8,480
Excess Investment Income (Loss)	<u>8,796,026</u>	<u>(22,764,605)</u>
Sub Total	<u>8,832,391</u>	<u>(22,721,130)</u>
<b>Total Receipts, Net</b>	<u>\$21,242,140</u>	<u>(\$10,471,177)</u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$217,332	\$161,316
Transfers to Other Systems	<u>121,472</u>	<u>264,389</u>
Sub Total	<u>338,804</u>	<u>425,706</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	913,793	842,973
Option B Refunds	<u>148,576</u>	<u>99,400</u>
Sub Total	<u>1,062,369</u>	<u>942,374</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	3,988,070	3,828,102
Survivorship Payments	473,567	477,061
Ordinary Disability Payments	128,926	135,669
Accidental Disability Payments	1,912,391	1,667,916
Accidental Death Payments	1,025,894	1,045,780
Section 101 Benefits	157,657	140,657
3 (8) (c) Reimbursements to Other Systems	202,306	182,863
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>7,888,812</u>	<u>7,478,046</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	16,500	16,500
Salaries	112,566	109,992
Legal Expenses	12,000	12,000
Medical Expenses	0	0
Travel Expenses	1,436	1,945
Administrative Expenses	13,708	26,435
Professional Services	0	0
Education and Training	0	0
Furniture and Equipment	0	0
Management Fees	403,653	316,131
Custodial Fees	0	0
Consultant Fees	0	0
Rent Expenses	0	0
Service Contracts	13,206	13,993
Fiduciary Insurance	11,901	16,545
Depreciation	<u>0</u>	<u>0</u>
Sub Total	<u>584,970</u>	<u>513,541</u>
<b>Total Disbursements</b>	<u><b>\$9,874,955</b></u>	<u><b>\$9,359,667</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Investment Income Received From:</b>		
Cash	\$9,216	\$74,133
Short Term Investments	0	0
Fixed Income	0	0
Equities	0	0
Pooled or Mutual Funds	1,761,093	2,247,462
Commission Recapture	0	0
<b>Total Investment Income</b>	<u>1,770,309</u>	<u>2,321,595</u>
<b>Plus:</b>		
Realized Gains	1,280,586	832,856
Unrealized Gains	14,913,239	3,644,278
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>16,193,825</u>	<u>4,477,134</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(3,993,077)	(4,699,753)
Unrealized Loss	(4,292,026)	(24,035,978)
Interest Due and Accrued - Prior Year	0	0
Sub Total	<u>(8,285,103)</u>	<u>(28,735,731)</u>
<b>Net Investment Income (Loss)</b>	<u>9,679,031</u>	<u>(21,937,003)</u>
<b>Income Required:</b>		
Annuity Savings Fund	118,989	136,957
Annuity Reserve Fund	179,033	177,089
Military Service Fund	12	14
Expense Fund	584,970	513,541
<b>Total Income Required</b>	<u>883,005</u>	<u>827,602</u>
Net Investment Income (Loss)	<u>9,679,031</u>	<u>(21,937,003)</u>
Less: Total Income Required	883,005	827,602
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$8,796,026</u>	<u>(\$22,764,605)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$793,566	1.2%
PRIT Cash Fund	200,099	0.3%
PRIT Core Fund	<u>62,814,262</u>	<u>98.4%</u>
<b>Grand Total</b>	<b><u>\$63,807,927</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2009, the rate of return for the investments of the Chelsea Retirement System was 17.80%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Chelsea Retirement System averaged 3.87%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chelsea Retirement System was 7.72%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Chelsea Retirement System is 100% invested with the PRIT fund. As a result the supplemental investment regulation submitted and previously approved by the Public Employee Retirement Administration Commission is effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

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

### ADMINISTRATION

There are 105 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

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

#### ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

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

#### ACCIDENTAL DISABILITY

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

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$729.84 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

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

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

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

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Chelsea Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### MEMBERSHIP:

September 24, 2010

Permanent full-time employees of the City of Chelsea will be admitted to membership in the Chelsea Retirement System subject to the following conditions:

- The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.
- The deduction to be withheld from the salary of each member who became an employee after July 1, 1996 must be 9% plus an additional 2% of compensation in excess of \$30,000.
- Employees may request, in writing, permission to make-up payments for their previous employment with the City of Chelsea or any agency which has been accepted as a member of the retirement system. The amount to be repaid for the make-up period only shall be based on the percentage in effect on the original date of the employee's employment.
- The make-up payment of those deductions that would have been made had the employee become a member of the Chelsea Retirement System on the original date of employment shall be the percentage in effect on said date, plus interest to the completion of the make-up payment. For the period beginning July 1, 1996 and thereafter, the percentage withheld is 9%. Plus an additional 2% of compensation in excess of \$30,000.
- Each employee requesting permission to make up payments for their previous employment shall provide the Retirement Board with a verified list of salaries earned by them, by calendar year, not including overtime or bonuses so that a make-up payment can be calculated.
- Any member who has been previously employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that an inquiry can be made as to the disposition of said employee's accumulated deductions.
- Each employee seeking to become a member of the Chelsea Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate and, if a veteran, a copy of their military discharge papers, Form DD-214, or other official documentation.

December 1, 2004

In order to be eligible for membership in the Chelsea Contributory Retirement System, permanent part-time or permanent full time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts filling in for vacation or sick time, do not count towards the twenty-hour minimum requirement for membership.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

February 13, 1998

**Military Service Credit** Any member seeking military service credit in accordance with the provisions of C. 71 of the Acts of 1996, who is eligible for such credit as of September 19, 1997, must submit an application for such service on or before March 16, 1998.

Members, who become eligible for military service credit after September 19, 1997, shall be notified of their eligibility by the Retirement Board and must submit an application for such credit within 180 days of receipt of notification. The Retirement Board will review each application to determine the member's eligibility, and will notify each eligible applicant in writing of the amount of service which may be purchased, and of the amount of the required payment. The member must then remit the full-required payment in one lump sum to the Retirement Board on or before the forty fifth day following the member's receipt of notification of eligibility, or on or before the date immediately preceding the member's date of retirement, whichever date first occurs.

Permanent full-time employees of the City of Chelsea will be admitted to membership in the Chelsea Retirement System subject to the following conditions:

- The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.
- The deduction to be withheld from the salary of each member who became an employee after July 1, 1996 must be 9% plus an additional 2% of compensation in excess of \$30,000.
- Employees may request, in writing, permission to make-up payments for their previous employment with the City of Chelsea or any agency which has been accepted as a member of the retirement system. The amount to be repaid for the make-up period only shall be based on the percentage in effect on the original date of the employee's employment.
- The make-up payment of those deductions that would have been made had the employee become a member of the Chelsea Retirement System on the original date of employment shall be the percentage in effect on said date, plus interest to the completion of the make-up payment. For the period beginning July 1, 1996 and thereafter, the percentage withheld is 9%. Plus an additional 2% of compensation in excess of \$30,000.
- Each employee requesting permission to make up payments for their previous employment shall provide the Retirement Board with a verified list of salaries earned by them, by calendar year, not including overtime or bonuses so that a make-up payment can be calculated.
- Any member who has been previously employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that an inquiry can be made as to the disposition of said employee's accumulated deductions.
- Each employee seeking to become a member of the Chelsea Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate and, if a veteran, a copy of their military discharge papers, Form DD-214, or other official documentation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

December 28, 1984

Membership All new members must file proof of their date of birth with their application for membership.

#### CREDITABLE SERVICE:

December 28, 1984

Upon granting membership to permanent intermittent employees of the school cafeteria, it was determined that these employees shall be granted credit for that proportion of the number of hours worked as it bears to the number of hours a regularly employed full-time cafeteria employee is required to work during a school year, to obtain a full year of creditable service, 1400 hours.

#### MISCELLANEOUS:

July 22, 1988

Form

Approval of disability retirement Form A which provides: "The applicant is required to submit with his/her application for disability retirement benefits all medical records and or reports relating to the applicant's claim for disability benefits."

December 28, 1984

Access to Medical Information

No medical information contained in an employee file or in a medical panel report will be dispensed to anyone without the written permission of the member concerned, whether retired or not - provided that authorized individuals such as representatives of the Division of Public Employee Retirement and the Retirement Board may still be granted access.

December 28, 1984

Disability Waiver

Any waivers of a physical condition that may have been signed by an employee in order to obtain their positions with the City, must be sent to the Retirement Board at once. Any future such waivers that may be signed must be forwarded to the Retirement board immediately.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the Chelsea Retirement System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2009.

The actuarial liability for active members was	\$72,263,282
The actuarial liability for retired members, survivors and inactives was	<u>70,818,871</u>
The total actuarial liability was	143,082,153
System assets as of that date were	<u>65,231,613</u>
The unfunded actuarial liability was	<u>\$77,850,540</u>
The ratio of system's assets to total actuarial liability was	45.6%
As of that date the total covered employee payroll was	\$29,412,382

The normal cost for employees on that date was 8.60% of payroll  
 The normal cost for the employer was 6.40% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Varies by group

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2009

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2009	\$65,231,613	\$143,082,153	\$77,850,540	45.6%	\$29,412,382	264.7%
1/1/2007	\$62,031,961	\$130,398,065	\$68,366,104	47.6%	\$26,951,807	253.7%
1/1/2005	\$50,307,347	\$114,625,947	\$64,318,600	43.9%	\$24,442,724	263.1%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	8	4	10	24	9	14	5	2	0	15
Ordinary Disability	1	0	0	1	0	0	0	0	0	0
Accidental Disability	0	3	3	0	0	1	0	1	0	2
<b>Total Retirements</b>	9	7	13	25	9	15	5	3	0	17
Total Retirees, Beneficiaries and Survivors	426	405	398	428	442	409	393	395	394	418
Total Active Members	657	646	663	627	689	690	670	664	695	667
<b>Pension Payments</b>										
Superannuation	\$2,495,510	\$2,523,600	\$2,587,970	\$2,903,563	\$3,143,515	\$3,236,627	\$3,400,378	\$3,619,932	\$3,828,102	\$3,988,070
Survivor/Beneficiary Payments	391,573	366,168	341,777	358,204	395,654	381,536	416,946	441,010	477,061	473,567
Ordinary Disability	174,904	168,965	166,103	168,859	166,499	158,084	143,115	138,656	135,669	128,926
Accidental Disability	1,654,347	1,704,245	1,688,078	1,592,978	1,552,815	1,564,746	1,533,745	1,580,236	1,667,916	1,912,391
Other	917,726	945,098	1,047,368	1,247,529	1,119,136	1,341,597	1,374,224	1,367,754	1,369,299	1,385,858
<b>Total Payments for Year</b>	<u>\$5,634,060</u>	<u>\$5,708,076</u>	<u>\$5,831,296</u>	<u>\$6,271,133</u>	<u>\$6,377,619</u>	<u>\$6,682,590</u>	<u>\$6,868,408</u>	<u>\$7,147,588</u>	<u>\$7,478,046</u>	<u>\$7,888,812</u>

PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)