

# PERAC AUDIT REPORT



Clinton  
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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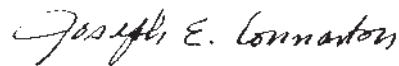
October 27, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Clinton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. 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 that noted in the finding presented in this report.

In closing, I acknowledge the work of examiner 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 FINDING AND RECOMMENDATION

### **Board Expenditures**

The Board Administrator is responsible for preparing the warrants and expense vouchers. She also prepares the checks and applies the Town Treasurer's stamped signature to these payments. In addition, she handles the deposit of funds from normal sources for the benefit of the system. These functions concentrate a significant level of control in the person serving in this position. This situation does not provide for the adequate separation of duties in compliance with Chapter 32 that is designed to protect the system's assets.

**Recommendation:** The Board and Town Treasurer must comply with C 32 § 23(2)(a) which states in part: "The county, city or town treasurer... shall have the custody of the funds of any such system. Payments from such funds shall be made by him only upon vouchers signed by two persons designated by the board of any such system by a vote a duly attested copy of which, bearing upon its face specimen signatures of such persons, shall be filed with the treasurer-custodian as his authority for making payments upon vouchers so signed. No voucher shall be drawn unless it shall have been previously authorized by vote of the board." Consequently, the Board at its next meeting, should vote to designate two persons to sign vouchers for submission to the Treasurer for making payments.

### **Board Response:**

The board agrees with this finding and voted to submit to the Town Treasurer, a copy of each month's retirement payroll and accounts payable warrants, which has been signed by at least two duly designated retirement board members for payment.

### **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,		
	2010	2009	2008
<b>Net Assets Available For Benefits:</b>			
Cash	\$2,254,884	\$2,668,721	\$3,646,580
Short Term Investments	407,725	400,000	0
Pooled Domestic Equity Funds	9,039,373	9,803,476	8,794,057
Pooled International Equity Funds	5,344,777	3,746,687	2,120,828
Pooled Domestic Fixed Income Funds	2,725,596	2,540,825	2,274,655
Pooled Alternative Investment Funds	1,497,106	1,408,531	1,253,898
Pooled Real Estate Funds	2,022,428	1,791,892	1,941,752
PRIT Cash Fund	0	0	0
PRIT Core Fund	4,167,733	1,718,250	0
Interest Due and Accrued	2,332	127	3,189
Accounts Receivable	2,903	3,573	3,076
Accounts Payable	(14,851)	(11,702)	(15,334)
<b>Total</b>	<u>\$27,450,004</u>	<u>\$24,070,379</u>	<u>\$20,022,701</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$9,428,876	\$9,051,526	\$8,678,385
Annuity Reserve Fund	1,663,301	1,445,465	1,368,302
Pension Fund	2,451,165	2,313,356	2,075,209
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	13,906,663	11,260,033	7,900,806
<b>Total</b>	<u>\$27,450,004</u>	<u>\$24,070,379</u>	<u>\$20,022,701</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)	\$8,255,231	\$1,294,648	\$1,839,597	\$0	\$0	\$17,574,754	\$28,964,229
Receipts	949,575	39,737	1,791,686	0	196,770	(9,673,948)	(6,696,180)
Interfund Transfers	(245,161)	245,161	0	0	0	0	0
Disbursements	(281,259)	(211,244)	(1,556,075)	0	(196,770)	0	(2,245,348)
Ending Balance (2008)	8,678,385	1,368,302	2,075,209	0	0	7,900,806	20,022,701
Receipts	891,574	36,320	1,910,460	0	174,765	3,359,227	6,372,347
Interfund Transfers	(307,679)	307,679	0	0	0	0	0
Disbursements	(210,754)	(266,837)	(1,672,313)	0	(174,765)	0	(2,324,669)
Ending Balance (2009)	9,051,526	1,445,465	2,313,356	0	0	11,260,033	24,070,379
Receipts	889,315	42,627	1,955,502	0	184,443	2,646,630	5,718,517
Interfund Transfers	(428,188)	428,188	0	0	0	0	0
Disbursements	(83,777)	(252,979)	(1,817,693)	0	(184,443)	0	(2,338,892)
Ending Balance (2010)	<u>\$9,428,876</u>	<u>\$1,663,301</u>	<u>\$2,451,165</u>	<u>\$0</u>	<u>\$0</u>	<u>\$13,906,663</u>	<u>\$27,450,004</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Members Deductions	\$849,761	\$842,445	\$837,511
Transfers from Other Systems	7,641	6,514	59,720
Member Make Up Payments and Re-deposits	4,329	608	4,790
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>27,584</u>	<u>42,006</u>	<u>47,553</u>
Sub Total	<u>889,315</u>	<u>891,574</u>	<u>949,575</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>42,627</u>	<u>36,320</u>	<u>39,737</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	31,311	31,311	31,311
	51,652	75,700	26,159
Pension Fund Appropriation	1,872,540	1,803,450	1,734,216
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,955,502</u>	<u>1,910,460</u>	<u>1,791,686</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>184,443</u>	<u>174,765</u>	<u>196,770</u>
Sub Total	<u>184,443</u>	<u>174,765</u>	<u>196,770</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	990	377	2,055
Miscellaneous Income	43,740	63	0
Excess Investment Income (Loss)	<u>2,601,900</u>	<u>3,358,788</u>	<u>(9,676,003)</u>
Sub Total	<u>2,646,630</u>	<u>3,359,227</u>	<u>(9,673,948)</u>
<b>Total Receipts, (Net)</b>	<u>\$5,718,517</u>	<u>\$6,372,347</u>	<u>(\$6,696,180)</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$26,501	\$71,521	\$144,999
Transfers to Other Systems	<u>57,276</u>	<u>139,233</u>	<u>136,260</u>
Sub Total	<u>83,777</u>	<u>210,754</u>	<u>281,259</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	252,979	229,022	211,244
Option B Refunds	<u>0</u>	<u>37,815</u>	<u>0</u>
Sub Total	<u>252,979</u>	<u>266,837</u>	<u>211,244</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	1,151,425	1,099,019	957,850
Survivorship Payments	66,258	2,815	66,513
Ordinary Disability Payments	72,019	70,649	69,287
Accidental Disability Payments	261,897	275,236	248,298
Accidental Death Payments	93,851	92,729	91,608
Section 101 Benefits	10,165	7,788	6,655
3 (8) (c) Reimbursements to Other Systems	162,079	124,078	115,864
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,817,693</u>	<u>1,672,313</u>	<u>1,556,075</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,000
Salaries	35,790	35,026	42,395
Legal Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Medical Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Travel Expenses	610	<u>0</u>	1,070
Administrative Expenses	18,728	20,006	22,066
Professional Services	500	<u>0</u>	<u>0</u>
Education and Training	500	500	<u>0</u>
Furniture and Equipment	<u>0</u>	<u>0</u>	842
Management Fees	86,137	76,512	88,349
Custodial Fees	<u>0</u>	<u>0</u>	<u>0</u>
Consultant Fees	25,000	25,000	25,000
Service Contracts	<u>0</u>	706	146
Fiduciary Insurance	<u>2,178</u>	<u>2,015</u>	<u>1,901</u>
Sub Total	<u>184,443</u>	<u>174,765</u>	<u>196,770</u>
<b>Total Disbursements</b>	<b><u>\$2,338,892</u></b>	<b><u>\$2,324,669</u></b>	<b><u>\$2,245,348</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Investment Income Received From:</b>			
Cash	\$18,645	\$19,483	\$116,926
Short Term Investments	7,725	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	303,540	272,440	342,544
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>329,910</u>	<u>291,923</u>	<u>459,470</u>
<b>Plus:</b>			
Realized Gains	236,291	106,514	88,043
Unrealized Gains	4,512,534	6,006,165	2,246,344
Interest Due and Accrued - Current Year	2,332	127	3,189
Sub Total	<u>4,751,157</u>	<u>6,112,806</u>	<u>2,337,576</u>
<b>Less:</b>			
Realized Loss	(16,555)	(342,701)	(332,655)
Unrealized Loss	(2,207,831)	(2,446,960)	(11,841,481)
Interest Due and Accrued - Prior Year	(127)	(3,189)	(14,852)
Sub Total	<u>(2,224,514)</u>	<u>(2,792,850)</u>	<u>(12,188,988)</u>
<b>Net Investment Income (Loss)</b>	<u>2,856,554</u>	<u>3,611,879</u>	<u>(9,391,943)</u>
<b>Income Required:</b>			
Annuity Savings Fund	27,584	42,006	47,553
Annuity Reserve Fund	42,627	36,320	39,737
Military Service Fund	0	0	0
Expense Fund	184,443	174,765	196,770
<b>Total Income Required</b>	<u>254,654</u>	<u>253,091</u>	<u>284,061</u>
Net Investment Income (Loss)	<u>2,856,554</u>	<u>3,611,879</u>	<u>(9,391,943)</u>
Less: Total Income Required	<u>254,654</u>	<u>253,091</u>	<u>284,061</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$2,601,900</u>	<u>\$3,358,788</u>	<u>(\$9,676,003)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,254,884	8.2%
Short Term	407,725	1.5%
Pooled Domestic Equity Funds	9,039,373	32.9%
Pooled International Equity Funds	5,344,777	19.5%
Pooled Domestic Fixed Income Funds	2,725,596	9.9%
Pooled Alternative Investment Funds	1,497,106	5.5%
Pooled Real Estate Funds	2,022,428	7.4%
PRIT Core Fund	<u>4,167,733</u>	<u>15.2%</u>
<b>Grand Total</b>	<b><u>\$27,459,621</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2010, the rate of return for the investments of the Clinton Retirement System was 13.16%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Clinton Retirement System averaged 2.69%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Clinton Retirement System was 7.67%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Clinton Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 13, 2008

16.08

In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make the following modifications to its investment portfolio managed by State Street Global Advisors.

In order to rebalance its domestic equity portfolio back toward growth from its recent emphasis on value, the Board will be reducing its position in SSgA's Large Cap Value Fund and will begin investing in SSgA's Large Cap Growth Opportunities Fund. This fund is an offshoot of SSgA's Core Opportunities Fund, in which the Board had earlier invested.

In order to maintain exposure to the fixed income market in a lower-cost, less risky manner, the Board will begin investing in SSgA's Passive Bond Market Fund. This will replace the Board's recently liquidated position in SSgA's Daily Bond Fund, an actively managed fund with the same benchmark.

February 21, 2006

16.08

In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make a minor modification to its large cap equity mandate with State Street Global Advisors. It will transfer its assets currently invested in SSGA's 500 Index Fund to SSGA's Index Plus Fund. This fund has the same investment universe and benchmark as the 500 Index Fund but seeks to outperform the Index by 50-100 basis points by making risk-controlled bets relative to the Index, such as by making selective over-weighting or under-weighting of certain stocks or by investing in certain large cap stocks that may not be in the S&P 500 Index.

December 6, 2005

16.08

In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make a modest modification to its international equity management mandate with State Street Global Advisors. In order to obtain greater diversification within its international equity holdings, the Board will cease to invest solely in the SSGA International Alpha Common Trust fund. It will, instead, invest in SSGA's All International Allocation Strategy, which invests opportunistically in a number of SSGA international equity funds. Well over half the assets will typically be invested the SSGA International Alpha CTF, and about 87% will continue to be invested in developed markets. Between 10-15% will typically be invested in international small cap and emerging markets. Funds to be used include the International Growth Opportunities CTF, the Daily Active Emerging Markets CTF, the Canadian Alpha CTF, the Rexiter Active Emerging Markets CTF, and the Active International Small Cap CTF.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

May 27, 2005

16.08

In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to modify its small cap equity mandate with State Street Global Advisors by transferring its assets from the SSGA Small Cap Growth Opportunities Fund to the SSGA Small Cap Index Plus Fund. The new fund is less dependent on a particular portfolio manager and is also less style-specific. Over time, the enhanced index core approach should give the Board less volatility in its returns from small cap equity.

April 10, 2003

16.08

In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to invest in the SSGA International Alpha Fund. By supplementing its current investment in the SSGA International Growth Opportunities Fund, which has a growth tilt, with the International Alpha Fund, which has a value tilt, the Board will more effectively achieve its mandate for large cap international core equity. Both funds have an MSCI-EAFE benchmark. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

August 31, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

August 30, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board may make a modification to its investment agreements with State Street Global Advisors. In transitioning from the EAFE Securities Lending Fund to the International Growth Opportunities Fund, the Board is investing in the same universe of securities, with the same portfolio benchmark, but in an active rather than passive style consistent with its overall asset allocation program. The Board has an existing and successful relationship with SSgA, it is satisfied that SSgA has sufficient ability as an active international equity manager, and certain internal guidelines for the actively-managed fund limit the extent of the portfolio's deviation for the benchmark portfolio structure.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Clinton 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. Members who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, §. 10.

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. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

## 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 \$751.80 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 \$751.80 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 (COLA) 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 COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

### 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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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.

### 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 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 retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the 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 Clinton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 19, 2002

#### Membership Eligibility, Creditable Service, and Prior Service

1. A person must work a minimum of an average of 20 hours per week per work year in order to be eligible to become a member of the Clinton Retirement System, except those elected officials who may join the system in accordance with Chapter 32, Section 3(2)(vi).

2. Creditable Service will be based on the average hours worked per week per work year. The following schedule will apply:

20-24 average hours per week .....	50% creditable service
25-28 average hours per week .....	60% creditable service
29-34 average hours per week .....	75% creditable service
35 and over average hours per week .....	100% creditable service

3. Eligible Prior Service rendered by a current system member who was not a member of the system at the time of the eligible service will be allowed to buy back creditable service on the following schedule:

20-24 average hours per week .....	50% creditable service
25-28 average hours per week .....	60% creditable service
29-34 average hours per week .....	75% creditable service
35 and over average hours per week .....	100% creditable service

June 9, 1999

#### Buy-back military service

Each eligible member's buy back of military service time pursuant to Chapter 71 of the acts of 1996 can be made up until the date of retirement.

May 29, 1996

#### Buy backs

Any person requesting a buy back must have verification records of employment (e.g., tax records, tax returns, salary slips).

April 17, 1996

#### Buy backs

Anyone who was enrolled in FICA during the requested time for buy back is not eligible for buy back.

Those persons requesting buy backs for creditable service must prove eligibility through recognized records. (example check stubs).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

April 17, 1996

#### Creditable Service

Any part-time employee who becomes a full-time employee shall have his or her part time service prorated as it relates to a full-time position.

April 17, 1996

#### Creditable Service

Part-time permanent employees receiving weekly or monthly salaries or wages for consecutive periods of employment will be given creditable service based on service rendered.

For example, in the case of school personnel, consecutive periods of employment will be defined as returning the following September

April 17, 1996

#### Membership

Permanent part-time employees (as defined by the Town Personnel By-Laws) working a minimum of twenty (20) consistent hours per week must become members of the Retirement System.

November 3, 1994

#### Creditable Service

Any person working for the Town who is not eligible for the town's retirement program and has an alternative retirement program being paid into will not be considered for creditable service for the town retirement plan.

December 8, 1992

#### Creditable Service

To allow 2 months creditable service for each year a call fire fighter works for the town, not to exceed five years, provided that the call firefighter goes directly from call firefighter to permanent fire fighter. this ruling takes effect as of October 22, 1992.

December 8, 1992

#### Membership

As of October 22, 1992 a person must work a minimum of twenty hours per week to be eligible to join the retirement system. Any member currently in the retirement system before this date will be grandfathered into the system.

September 27, 2002

The Clinton Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulation available upon written request.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$27,080,179
The actuarial liability for retirees, survivors and inactive members was	<u>14,959,198</u>
The total actuarial liability was	42,039,377
System assets as of that date were (actuarial value)	<u>24,027,241</u>
The unfunded actuarial liability was	<u>\$18,012,136</u>
The ratio of system's assets to total actuarial liability was	57.2%
As of that date the total covered employee payroll was	\$9,551,282

The normal cost for employees on that date was 8.4% of payroll  
 The normal cost for the employer was 6.4% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively

#### 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	\$24,027,241	\$42,039,377	\$18,012,136	57.2%	\$9,551,282	188.6%
1/1/2007	\$24,128,460	\$36,394,533	\$12,266,073	66.3%	\$8,510,265	144.1%
1/1/2005	\$19,072,814	\$31,682,543	\$12,609,729	60.2%	\$7,785,612	162.0%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Retirement in Past Years</b>										
Superannuation	4	2	6	7	2	1	1	4	2	6
Ordinary Disability	0	0	0	1	0	0	1	0	0	0
Accidental Disability	3	0	1	0	1	0	1	0	1	0
<b>Total Retirements</b>	7	2	7	8	3	1	3	4	3	6
Total Retirees, Beneficiaries and Survivors	102	97	100	103	104	100	100	104	109	102
Total Active Members	244	244	242	259	261	276	250	263	254	233
<b>Pension Payments</b>										
Superannuation	\$626,981	\$651,333	\$705,041	\$868,830	\$904,153	\$901,824	\$899,529	\$957,850	\$1,099,019	\$1,151,425
Survivor/Beneficiary Payments	23,506	18,808	15,400	11,535	8,256	7,322	65,648	66,513	2,815	66,258
Ordinary Disability	33,585	34,350	35,306	45,675	56,256	49,906	63,948	69,287	70,649	72,019
Accidental Disability	118,729	156,507	181,709	189,954	201,638	216,765	275,265	248,298	275,236	261,897
Other	100,811	130,025	88,553	133,385	146,565	207,527	215,773	214,127	224,594	266,095
<b>Total Payments for Year</b>	<u>\$903,612</u>	<u>\$991,023</u>	<u>\$1,026,009</u>	<u>\$1,249,379</u>	<u>\$1,316,868</u>	<u>\$1,383,344</u>	<u>\$1,520,163</u>	<u>\$1,556,075</u>	<u>\$1,672,313</u>	<u>\$1,817,693</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)