TODAY NEWS

MACRS

RELEASING A PERAC AUDIT TO THE PUBLIC

Frank Valeri | Deputy Director
PERAC
October 9, 2013

BUILDING A PRESS RELEASE!

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY | PHILIP Y. BROWN

July 10, 2013

The Public Employee Retirement Administration Commission has completed an examination of the **AGAWAM** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. 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.

We commend the **AGAWAM** Retirement Board for the exemplary operation of the system.

OR

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 Harry Chadwick who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

STEP 1: REFERENCE PERAC AUDIT COVER LETTER

Agawam Retirement Board News

For immediate Release

Date:

For more information contact:

State Completes Agawam Retirement System Audit

Local retirement board finishes PERAC review process and Audit Report issued.

The **Agawam** Retirement System has received the final Audit Report encompassing the years 2010 – 2012 from the Public Employee Retirement Administration Commission, (PERAC).

PERAC is the state agency commissioned with oversight of the state's 105 retirement systems. As required by state law, PERAC conducts an in-depth mandated audit of each of the state's retirement systems, at least once every three years.

The **Agawam** Retirement system audit was conducted in accordance with the accounting and management standards established by state law and regulations. The final Audit Report found "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.

STEP 2: IF NO FINDINGS, ALSO REFERENCE COVER LETTER

PERAC

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The **Agawam** Retirement system audit was conducted in accordance with the accounting and management standards established by state law and regulations. The final Audit Report found "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.

The **Agawam** Retirement System audit report by PERAC's auditors that require remedial intervention by the system. PERAC's Executive Director Joseph E. Connarton praised the system for its efforts,

> "We commend the **Agawam** Retirement System for the exemplary operation of its system. Achieving no Findings or Recommendations in a rigorous PERAC audit is a tremendous achievement. It exemplifies a high degree of professionalism and attention to law, regulation and detail. I cannot compliment the system enough for this truly noteworthy accomplishment. Congratulations."

STEP 2: OR IF LIMITED FINDINGS, ALSO REFERENCE COVER LETTER

PERAC

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The **Agawam** Retirement system audit was conducted in accordance with the accounting and management standards established by state law and regulations. The final Audit Report found "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.

The audit results of the **Agawam** Retirement System noted only (**one or minimal**) findings and recommendations by PERAC's auditors that require remedial intervention by the system. PERAC's Executive Director Joseph E. Connarton praised the system for its efforts,

> "We applaud the **Agawam** Retirement System for the commendable operation of its system. **Our audit process only identified minor administrative issues which the Board is or has taken action to address.** Responding to our recommendations as a result of PERAC's rigorous audit is a fine achievement. It exemplifies a high degree of professionalism and attention to law, regulation and detail. I commend the system and encourage it to continue its excellent efforts in the future. Congratulations."

STEP 3: BOARD CHAIR OR REPRESENTATIVE SUGGESTED STATEMENTS, REFERENCE BOARD RESPONSES

Mr./Ms./ ----------, Chair of the **Agawam** Retirement Board commented on PERAC's positive Audit,

We are very pleased that PERAC's audit has provided a detailed and clear indication that **Agawam** Retirement System is being managed in a highly professional and expert manner. As fiduciaries, my fellow Board members, the staff and I are committed to fulfilling our responsibilities to manage the system in the most competent manner possible. In so doing, we safeguard the assets of the systems for its employees, retirees, the City/ Town of **Agawam** and the interests of its taxpayers. I also would like to express to our constituents the ongoing commitment of the Board and staff that we will continually strive for excellence in all of our actions on behalf of the rights and equities of all those parties in interest."

OR a shortened version:

Mr./Ms./ ---------, Chair of the **Agawam** Retirement Board commented on PERAC's positive Audit,

With No Findings:

"I'm pleased to see we are in compliance with the State accounting standards and that over the audit period we have been operating at such level of competency. Having a State audit resulting with no recommendations is a great credit to our Board members and staff."

With Minimal Findings:

"I'm pleased to see we are in compliance with the State accounting standards and that over the audit period we have been operating at such level of competency. Having a State audit resulting in marginal administrative recommendations is a great credit to our Board members and staff. Our staff is making the adjustments to our operations in accordance with their recommendations in order to be fully in compliance with the new pension reform law. "

STEP 3: MINIMAL (ONE FINDING)

EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation:

The two pay codes are "car allowance", which is a monthly payment for using a personal car to drive to various work sites, and "cell phone reimbursement", which is a monthly payment for using a personal phone for work purposes. These are not regular compensation pursuant to 840 CMR 15.03 (3) (f): "wages' shall not include, without limitation,… payments for such items as … job-related expense payments, automobile usage, …"

Retirement deductions are not taken from the Agawam Housing Authority's "on call" pay of $7 per day. This is regular compensation based on 840 CMR 15.03 (3) (a) and (b) which state, respectively, that regular compensation is wages for "services performed" (being on call is a service to the employer) and that wages include "pre-determined, non-discretionary, guaranteed payments."

Recommendation: The City payroll department must be instructed to stop withholding retirement contributions from pay codes for "car allowance" and "cell phone reimbursement". Any amounts incorrectly paid to the Retirement System should be refunded.

The Agawam Housing Authority must be instructed to begin deducting retirement contributions from the "on call" pay. The rate of deduction must be the same as the member's other compensation plus the additional 2%, if applicable.

Board Response:

Upon review of the "car allowance and cell phone reimbursement" retirement deductions that were withheld for the three year audit period, the Agawam Retirement Board has refunded the proper amounts due to the members involved. The City payroll department has been instructed to cease withholding retirement deductions on these pay codes.

Upon review of the Agawam Housing Authority's "on call" pay for the three year audit period, the Agawam Retirement Board has instructed the Agawam Housing Authority to start withholding retirement deductions on these wages.

The Agawam Housing Authority had just recently (August 2013) changed their "on call" policy and pay.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

CONSIDER THE STATEMENT OF RECEIPTS VS. DISBURSEMENTS OVER AUDIT PERIOD

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$2,515,182	$2,436,909	$2,411,067
Transfers from Other Systems	355,174	235,376	300,687
Member Make Up Payments and Re-deposits	6,499	2,372	22,530
Member Payments from Rollovers	0	5,908	5,231
Investment Income Credited to Member Accounts	58,714	80,216	117,370
Sub Total	2,935,570	2,760,782	2,856,886
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	224,484	229,751	226,183
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	162,314	131,690	115,199
Received from Commonwealth for COLA and Survivor Benefits	95,679	218,126	288,648
Pension Fund Appropriation	5,916,756	5,661,968	5,418,151
Settlement of Workers' Compensation Claims	0	0	5,000
Sub Total	6,174,749	6,011,783	5,826,998
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	527,704	477,010	428,442
Sub Total	527,704	477,010	428,442
Pension Reserve Fund:			
Federal Grant Reimbursement	83,824	60,392	69,838
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	0	2,180	2,341
Miscellaneous Income	507	216	196
Excess Investment Income (Loss)	(44,637)	8,181,160	9,057,693
Sub Total	39,695	8,243,948	9,130,068
Total Receipts, Net	$9,902,202	$17,723,275	$18,468,578

- Report showed total Receipts for the audit period of $46M with Disbursements of $28.7M.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

CONSIDER THE STATEMENT OF RECEIPTS VS. DISBURSEMENTS OVER AUDIT PERIOD

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$92,518	$188,755	$166,901
Transfers to Other Systems	218,187	69,170	476,875
Sub Total	310,705	257,926	643,776
Annuity Reserve Fund:			
Annuities Paid	1,248,527	1,190,289	1,143,576
Option B Refunds	129,013	4,618	0
Sub Total	1,377,540	1,194,908	1,143,576
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,576,550	5,567,313	5,415,401
Survivorship Payments	447,208	396,130	364,573
Ordinary Disability Payments	37,697	26,397	26,037
Accidental Disability Payments	959,918	960,096	963,950
Accidental Death Payments	212,610	223,960	220,720
Section 101 Benefits	68,248	63,049	61,213
3 (8) (c) Reimbursements to Other Systems	283,353	284,739	200,394
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	7,585,583	7,521,683	7,252,288
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	1,500	1,500	750
Salaries	143,833	142,831	130,925
Legal Expenses	8,930	14,454	23,149
Medical Expenses	0	88	0
Travel Expenses	3,745	1,620	3,704
Administrative Expenses	8,547	8,144	9,537
Education and Training	400	2,540	0
Furniture and Equipment	13,600	0	0
Management Fees	234,048	223,690	167,127
Custodial Fees	34,387	30,706	38,721
Consultant Fees	53,650	27,500	31,148
Service Contracts	19,076	18,172	18,062
Fiduciary Insurance	5,990	5,763	5,321
Sub Total	527,704	477,010	428,442
Total Disbursements	$9,801,533	$9,451,526	$9,468,083

- Report showed total Receipts for the audit period of $46M with Disbursements of $28.7M.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

NET TOTAL INVESTMENT EARNINGS FOR AUDIT PERIOD (FOUND IN THE "INVESTMENT INCOME" TABLE, TOTAL "EXCESS INCOME" FOR EACH YEAR OF AUDIT PERIOD)

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Investment Income Received From:			
Cash	$3,054,680	$1,486,091	$1,170,061
Pooled or Mutual Funds	293,156	229,248	514,978
Total Investment Income	3,347,837	1,715,339	1,685,039
Plus:			
Realized Gains	81,780	56,858	226,587
Unrealized Gains	18,402,641	30,522,925	20,576,195
Sub Total	18,484,421	30,579,783	20,802,783
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(1,275)
Realized Loss	(7,164)	(281,825)	(409,726)
Unrealized Loss	(21,058,828)	(23,045,160)	(12,247,132)
Sub Total	(21,065,992)	(23,326,985)	(12,658,133)
Net Investment Income (Loss)	766,266	8,968,137	9,829,689
Income Required:			
Annuity Savings Fund	58,714	80,216	117,370
Annuity Reserve Fund	224,484	229,751	226,183
Military Service Fund	0	0	0
Expense Fund	527,704	477,010	428,442
Total Income Required	810,903	786,977	771,996
Net Investment Income (Loss)	766,266	8,968,137	9,829,689
Less: Total Income Required	810,903	786,977	771,996
Excess Income (Loss) To The Pension Reserve Fund	($44,637)	$8,181,160	$9,057,693

- Audit Report showed that the Agawam Retirement System realized $17.2M in investment gains over the audit period.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

TOTAL ASSETS AND RATE OF RETURN SINCE THE BEGINNING OF PERAC EVALUATING (FOUND IN THE "SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED")

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$573,298	0.8%
Fixed Income	13,119,535	17.2%
Equities	1,655	0.0%
Pooled Domestic Equity Funds	8,934,521	11.7%
Pooled International Equity Funds	14,964,183	19.7%
Pooled International Fixed Income Funds	1,941,747	2.6%
Pooled Alternative Investment Funds	175,811	0.2%
Pooled Real Estate Funds	9,369,671	12.3%
Pooled Domestic Balanced Funds	23,185,318	30.5%
Hedge Funds	3,836,338	5.0%
Grand Total	$76,102,076	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Agawam Retirement System was 14.57%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Agawam Retirement System averaged .82%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Agawam Retirement System was 8.87%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

- Agawam investment performance since PERAC began evaluating was reported at 8.87% in the audit report.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

FUNDING LEVEL AND ANNUALIZED PENSION COSTS PAID BY EMPLOYER vs. EMPLOYEES.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2012.

The actuarial liability for active members was	$75,809,728
The actuarial liability for inactive members was	1,170,051
The actuarial liability for retired members was	70,924,654
The total actuarial liability was	$147,904,433
System assets as of that date were	94,697,600
The unfunded actuarial liability was	$53,206,833
The ratio of system's assets to total actuarial liability was	64.0%
As of that date the total covered employee payroll was	$27,627,175

A

The normal cost for employees on that date was 9.0% of payroll

The normal cost for the employer including expenses was 7.7% of payroll

= 54%

B

A At the end of the audit period, the Agawam Retirement System funded level was at 64%, with assets of $94.7M.

B Employee pension contributions account for approximately 54% of the total annualized pension costs of the system.

STEP 4: INCLUDE OTHER SUGGESTED AUDIT REPORT ITEMS TO CONSIDER TO RELEASE

TOTAL MEMBERSHIP FOR 10-YEAR PERIOD, LEVEL OR DECREASE IN MOST SYSTEMS.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	9	19	17	15	14	15	12	1	8	0
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	2	0	0	0	0	0	0	0	0
Total Retirements	10	21	17	15	14	15	12	1	8	0
Total Retirees, Beneficiaries and Survivors	359	364	367	369	369	384	371	380	392	372
Total Active Members	549	549	558	594	569	585	585	588	585	570
Pension Payments										
Superannuation	$3,585,267	$3,764,107	$4,029,816	$4,258,068	$4,468,775	$4,669,454	$4,985,455	$5,415,401	$5,567,313	$5,576,550
Survivor/Beneficiary Payments	280,327	244,055	277,075	275,585	294,509	316,117	331,323	364,573	396,130	447,208
Ordinary Disability	40,499	41,379	26,008	29,926	33,190	33,804	26,419	26,037	26,397	37,697
Accidental Disability	914,766	920,902	901,995	844,356	867,618	998,022	918,240	963,950	960,096	959,918
Other	267,572	292,019	375,334	372,924	394,968	445,431	454,511	482,327	571,748	564,210
Total Payments for Year	$5,088,431	$5,262,462	$5,610,228	$5,780,859	$6,059,060	$6,462,828	$6,715,948	$7,252,288	$7,521,683	$7,585,583

- Audit Report also identified a stable membership level of active members over the past 10 years. Membership ranged from 549 in 2003 to 570 in 2012.

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
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