

# PERAC AUDIT REPORT



Braintree  
Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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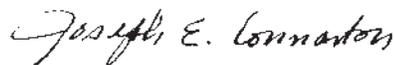
May 16, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Braintree Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. 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 finding presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and John J. Shea who conducted this examination, and express appreciation to the Braintree Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





## EXPLANATION OF FINDING AND RECOMMENDATION

### **I. Board Member Attendance:**

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 50% of meetings in 2009, 53% of the meetings in 2010, and 41% of the meetings in 2011. The result is an attendance rate for a Board member that is well below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive.

**Recommendation:** Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

### **Board Response:**

In January of 2012, the Mayor replaced this member, and notified the Board of the official appointment in writing. The Board believes that this attendance issue has been addressed and remedied.

### **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,		
	2011	2010	2009
<b>Net Assets Available For Benefits:</b>			
Cash	\$2,129,537	\$2,723,420	\$2,873,435
Pooled Domestic Equity Funds	31,809,128	31,143,168	27,047,950
Pooled International Equity Funds	15,823,306	19,007,330	17,811,554
Pooled Domestic Fixed Income Funds	52,600,105	52,717,113	51,098,069
Pooled Alternative Investment Funds	767,501	0	0
Pooled Real Estate Funds	5,030,953	4,542,430	4,024,641
PRIT Cash Fund	6,448,305	6,631,835	6,239,468
PRIT Core Fund	20,649,272	20,716,682	18,299,171
Prepaid Expenses	7,969	7,904	4,009
Accounts Receivable	81,293	92,009	17,119
Accounts Payable	(50,936)	(27,392)	(14,946)
<b>Total</b>	<u>\$135,296,433</u>	<u>\$137,554,499</u>	<u>\$127,400,470</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$38,106,641	\$35,835,800	\$34,244,442
Annuity Reserve Fund	11,563,801	11,845,102	11,856,244
Pension Fund	1,963,576	2,082,009	2,248,166
Military Service Fund	1,507	1,504	1,500
Expense Fund	0	0	0
Pension Reserve Fund	83,660,908	87,790,084	79,050,117
<b>Total</b>	<u>\$135,296,433</u>	<u>\$137,554,499</u>	<u>\$127,400,470</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 (2009)	\$32,274,673	\$11,740,724	\$1,848,728	\$1,492	\$0	\$62,788,157	\$108,653,775
Receipts	3,509,729	352,483	7,227,652	7	769,520	20,241,442	32,100,834
Interfund Transfers	(1,422,384)	1,422,077	3,979,789	0	0	(3,979,482)	0
Disbursements	(117,575)	(1,659,040)	(10,808,003)	0	(769,520)	0	(13,354,139)
Ending Balance (2009)	34,244,442	11,856,244	2,248,166	1,500	0	79,050,117	127,400,470
Receipts	3,597,223	346,136	7,255,570	5	860,987	13,018,321	25,078,242
Interfund Transfers	(1,384,663)	1,384,572	4,278,446	0	0	(4,278,355)	0
Disbursements	(621,203)	(1,741,850)	(11,700,173)	0	(860,987)	0	(14,924,213)
Ending Balance (2010)	35,835,800	11,845,102	2,082,009	1,504	0	87,790,084	137,554,499
Receipts	3,717,643	346,700	7,729,769	3	904,861	181,530	12,880,506
Interfund Transfers	(1,219,628)	1,219,440	4,310,894	0	0	(4,310,706)	0
Disbursements	(227,174)	(1,847,440)	(12,159,097)	0	(904,861)	0	(15,138,572)
Ending Balance (2011)	<u>\$38,106,641</u>	<u>\$11,563,801</u>	<u>\$1,963,576</u>	<u>\$1,507</u>	<u>\$0</u>	<u>\$83,660,908</u>	<u>\$135,296,433</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Members Deductions	\$3,457,468	\$3,322,567	\$3,219,678
Transfers from Other Systems	164,645	68,996	118,389
Member Make Up Payments and Re-deposits	19,018	89,104	14,015
Member Payments from Rollovers	4,341	13,754	743
Investment Income Credited to Member Accounts	<u>72,171</u>	<u>102,802</u>	<u>156,904</u>
Sub Total	<u>3,717,643</u>	<u>3,597,223</u>	<u>3,509,729</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>346,700</u>	<u>346,136</u>	<u>352,483</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	194,909	184,652	188,927
Pension Fund Appropriation	123,607	127,197	281,757
Settlement of Workers' Compensation Claims	7,376,253	6,943,721	6,747,969
	<u>35,000</u>	<u>0</u>	<u>9,000</u>
Sub Total	<u>7,729,769</u>	<u>7,255,570</u>	<u>7,227,652</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>3</u>	<u>5</u>	<u>7</u>
Sub Total	<u>3</u>	<u>5</u>	<u>7</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>904,861</u>	<u>860,987</u>	<u>769,520</u>
Sub Total	<u>904,861</u>	<u>860,987</u>	<u>769,520</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	195,991	210,764	54,852
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	116	44,786	943
Miscellaneous Income	2,621	2,950	1,094
Excess Investment Income (Loss)	<u>(17,197)</u>	<u>12,759,820</u>	<u>20,184,553</u>
Sub Total	<u>181,530</u>	<u>13,018,321</u>	<u>20,241,442</u>
<b>Total Receipts</b>	<u>\$12,880,506</u>	<u>\$25,078,242</u>	<u>\$32,100,834</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$44,544	\$523,341	\$67,679
Transfers to Other Systems	<u>182,630</u>	<u>97,863</u>	<u>49,896</u>
Sub Total	<u>227,174</u>	<u>621,203</u>	<u>117,575</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,794,490	1,702,762	1,646,684
Option B Refunds	<u>52,950</u>	<u>39,088</u>	<u>12,356</u>
Sub Total	<u>1,847,440</u>	<u>1,741,850</u>	<u>1,659,040</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	7,502,306	7,225,990	7,017,161
Survivorship Payments	719,025	681,158	646,873
Ordinary Disability Payments	226,075	236,783	233,257
Accidental Disability Payments	1,848,884	1,833,169	1,807,370
Accidental Death Payments	877,994	770,045	747,423
Section 101 Benefits	57,800	55,662	54,041
3 (8) (c) Reimbursements to Other Systems	778,660	822,375	227,595
State Reimbursable COLA's Paid	148,352	74,991	74,284
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>12,159,097</u>	<u>11,700,173</u>	<u>10,808,003</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
<b>Expense Fund:</b>			
Board Member Stipend	0	0	0
Salaries	173,526	160,092	163,766
Legal Expenses	13,663	27,146	10,310
Medical Expenses	95	79	0
Travel Expenses	2,055	3,258	1,688
Administrative Expenses	20,999	16,652	20,002
Professional Services	900	13,200	12,000
Education and Training	540	1,475	1,000
Furniture and Equipment	0	0	2,322
Management Fees	527,942	479,311	409,208
Custodial Fees	69,682	63,956	55,703
Consultant Fees	65,000	65,000	65,000
Rent Expenses	0	0	0
Service Contracts	21,558	22,257	20,616
Fiduciary Insurance	8,901	8,562	7,905
Depreciation	0	0	0
Sub Total	<u>904,861</u>	<u>860,987</u>	<u>769,520</u>
<b>Total Disbursements</b>	<u>\$15,138,572</u>	<u>\$14,924,213</u>	<u>\$13,354,139</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Cash	\$6,954	\$1,008	\$3,369
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	987	11,292	8,846
Pooled or Mutual Funds	3,412,369	4,356,609	2,282,707
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>3,420,309</u>	<u>4,368,909</u>	<u>2,294,922</u>
<b>Plus:</b>			
Realized Gains	737,589	638,279	385,641
Unrealized Gains	16,749,074	25,495,343	30,694,764
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>17,486,663</u>	<u>26,133,622</u>	<u>31,080,404</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(18,878)	(42,245)	(1,464,489)
Unrealized Loss	(19,581,557)	(16,390,536)	(10,447,371)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(19,600,435)</u>	<u>(16,432,781)</u>	<u>(11,911,860)</u>
<b>Net Investment Income (Loss)</b>	<u>1,306,538</u>	<u>14,069,750</u>	<u>21,463,467</u>
<b>Income Required:</b>			
Annuity Savings Fund	72,171	102,802	156,904
Annuity Reserve Fund	346,700	346,136	352,483
Military Service Fund	3	5	7
Expense Fund	904,861	860,987	769,520
<b>Total Income Required</b>	<u>1,323,735</u>	<u>1,309,930</u>	<u>1,278,914</u>
Net Investment Income (Loss)	<u>1,306,538</u>	<u>14,069,750</u>	<u>21,463,467</u>
Less: Total Income Required	<u>1,323,735</u>	<u>1,309,930</u>	<u>1,278,914</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$17,197)</u>	<u>\$12,759,820</u>	<u>\$20,184,553</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,129,537	1.6%
Pooled Domestic Equity Funds	31,809,128	23.5%
Pooled International Equity Funds	15,823,306	11.7%
Pooled Domestic Fixed Income Funds	52,600,105	38.9%
Pooled Alternative Investment Funds	767,501	0.6%
Pooled Real Estate Funds	5,030,953	3.7%
PRIT Cash Fund	6,448,305	4.8%
PRIT Core Fund	<u>20,649,272</u>	<u>15.3%</u>
<b>Grand Total</b>	<b><u>\$135,258,107</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2011, the rate of return for the investments of the Braintree Retirement System was 11.41%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Braintree Retirement System averaged 5.36%. For the twenty-six 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 Braintree Retirement System was 9.00%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 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 twenty-seven year period ending December 31, 2011, 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 Braintree Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 17, 2010

16.08

The Braintree Retirement Board is authorized to invest in Lexington Capital Partners VII. The Manager will comply with 16.03(2), with the exception of the terms listed in this supplemental regulation. The provision pertaining to indemnification in 16.02(5) will not apply to this investment. To the extent that it provides annual client reviews and key person notification under the terms of its operating agreement, the Manager is exempted from 840 CMR 16.07(2) and (4). To the extent it follows the fiduciary standards set forth in the operating agreement, the Manager is exempted from any provision of 17.02, 17.03, and 17.04 that may be deemed to conflict with this. The Manager will not engage in any of the Prohibited Transactions set forth in 21.01 and the provisions of this section are not applicable to any of the fund's underlying investments.

April 10, 2003

17.04 (6)

The Braintree Retirement Board may enter into a contract with Eubel Brady & Suttman Asset Management and the trading activities of that firm shall not be construed as violating Investment Regulation 17.04 (6). While there may be some instances where some trades executed on behalf of the Board do not have priority over those executed for the firm's interests, there will be no instances where the firm's interests have priority over those of the Board. The requirement that the Board be given adequate opportunity to act on a recommendation by the manager before the firm acts on its own behalf is of limited practicality since the Board will be giving the manager discretionary authority to execute trades based on their professional judgment. In summary, the Board sees no substantial basis to question whether EBS will be in violation of the fundamental requirement that "personal transactions do not operate adversely to the board's interest."

August 13, 1997

20.03(1)

Equity investments shall not exceed 60% of the portfolio valued at market, including international equities, which shall not exceed 15% of the portfolio valued at market.

December 21, 1995

20.07(9)

Metric Apartment Co-Investment Trust; (MAC Trust) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- b) such personnel retain authority in the decision making process, and
- c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 12, 1995

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

May 23, 1995

20.03(1)

Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(9)

Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making authority, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divesture is prudent.

September 23, 1986

20.06(8)

Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 150% of the average market value of all equity holdings in any twelve month period.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Braintree 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 at 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. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- 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”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

**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. 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 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. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, §. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

## 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 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

### 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 is unmarried at the time of retirement for a member whose retirement becomes

## NOTES TO FINANCIAL STATEMENTS (Continued)

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” to Option A) 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” to Option A 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) (primarily relies upon the investment strategy of the PRIM Board to maintain their) 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 Braintree Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### **Creditable Service:**

December 6, 2004

Prior Service/Makeups

1. When purchasing prior part-time service, one must be an "active member" at the time of requests and repayment. If total hours worked cannot be obtained, then a W -2 shall be supplied by the applicant. An attempt should be made to acquire the Wage and Salary form from the Personnel Department. The Board should attempt to assess the hourly wage, divide by the W -2 and determine the yearly hours worked.

#### **Addendum: Service**

January 6, 2004

Credit

Full time Positions Qualify as:

Clerical, and Department Heads - Seven (7) hour days; Thirty Five (35) hour work week,

Laborers - Eight (8) hour days; Forty (40) hour work week

Crossing Guards - Four (4) hour days; Twenty (20) hour work week

School Cafeteria Staff -Six (6) hour days; Thirty (30) hour work week.

Braintree Retirement System Creditable Service

Buy Back of prior service formula

#### **EXAMPLES:**

*An employee works a total of 480 hours as an intermittent school lunch staffer. S/he requests to buy this time back when she becomes permanent lunch staff*

Calculation:

480 hours / 6 hours in a day / 21.6 work days in a month = 3 months of creditable service to be granted

*An employee works a total of 1,850 hours as a part-time (non member) clerical and now has been made full time clerical.*

Calculation:

1,850 hours / 7 hours in a day / 21.6 work days in a month = 12 months of creditable service to be granted

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

*An employee works a total of 480 hours as an intermittent school lunch staffer. S/he becomes a laborer and requests to buy this prior service time as a school lunch staffer.*

Calculation:

480 hours / 6 hours in a day / 21.6 work days in a month = 3 months of creditable service to be granted

Note: Service time to be granted based on *position* held at time of prior service, not based on new position.

#### **Disbursement of Funds**

1. Disbursement of retiree payroll funds shall be authorized by signatures of any two (2) members of the Retirement Board, or one (1) member, and the Director per M.G.L. Ch. 32 §23 (2).
2. Disbursement of any funds other than retiree payroll shall be authorized by signatures of the majority of the Board.

#### **Prior Service/Makeups**

1. When purchasing prior part-time service, if total hours worked cannot be obtained, then a W -2 shall be supplied by the applicant. An attempt should be made to acquire the Wage and Salary form from the Personnel Department. The Board should attempt to assess the hourly wage, divide by the W -2 and determine the yearly hours worked.
2. Former Comprehensive Employment Training Act (CETA) Employees who have provided service to the Town of Braintree, and can provide documentation of same, are eligible for membership in the Braintree Retirement System if they meet current requirements for membership.
3. Make-up payments are allowed for members who previously worked less than part-time and were ineligible for membership. Credit will be prorated as it relates to the *position* held at time of prior service. Prior service credit shall not be granted for a partial month.
4. Make-up payments of prior service shall be received in a lump sum payment, or in weekly installments with the repayment period not to exceed two years, except cases of hardship as determined by the Board. Once the agreement is made to repay no further interest shall be accrued.
5. Make-up payments of prior military service shall be received in a lump sum payment, or in minimum weekly installments of \$35, with the repayment period not to exceed five years, except in cases of hardship as determined by the Board.
6. Upon written request, and proper documentation of prior service, prior service for permanent-intermittent police officers, or permanent intermittent or call firefighters who are subsequently appointed to the respective department as a permanent full time employee, shall be granted credit for each full year served [up to the maximum allowed by law], without repayment to the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Deductions shall be withheld from all members' payroll checks in accordance with M.G.L. ch. 32, §22(1).

#### **Service Credit**

1. Credit will be granted on the basis of one (1) year, for a member in service who is employed in a full time capacity, as mandated for that position. (see addendum)

2. In the case of school employees whose position requires them to work from approximately September 01 to approximately June 30, said employees shall receive one (1) month of creditable service for each full month the employee is receiving regular compensation. Said employees shall be granted one (1) full year of service credit if they return to that position the following September. They shall be granted credit only for the months worked if they do not return after summer break.

3. For a member in service who is employed in part-time capacity throughout their entire career while an employee of the Town of Braintree, said employee will receive one year of creditable service for each full calendar in which the employee is receiving regular compensation for said service.

4. For a member in service who is employed in both a part-time capacity and full time capacity simultaneously, the member shall be pensioned on both positions but shall receive no more than one year of full time service for each calendar year.

5. Five (5) years maximum credit will be allowed to reserve or permanent intermittent police officers, or permanent intermittent or call firefighters, if they gain employment in a *qualified position* eligible for membership to the system, consistent with the provision of M.G.L. c. 32 § 4(2) (b).

6. Any member in service who regularly receives full time credit, but has had hours eliminated from the position due to budgetary constraints, shall continue to receive full time credit with the Braintree Retirement System.

#### **Membership:**

January 6, 2004

#### **Eligibility**

1. Membership is mandatory for all\* hired or appointed employees of the Town of Braintree who are employed twenty (20) hours or more per week on a regular basis for a period of time exceeding six (6) months, with the exception of those employees who attain the age of 70, upon which membership becomes voluntary.

2. Those Employees whose salaries are funded through a Federal or State Grant and are employed for twenty (20) hours or more per week are allowed membership into the System. All departments with Grant Employees shall reimburse the Braintree Retirement System on an annual basis of 9% of the total Grant Employees' salary.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

*Town of Braintree Teachers who qualify for membership to Massachusetts Teachers' Retirement System are excluded from the Braintree Retirement System.*

June 30, 1986

**Form**

Approval of refund form.

September 18, 1985

**Form**

Approval of Certification form to be completed by all recipients of retirement or survivor benefits.

September 27, 2002

The Braintree Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Braintree>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement. The Braintree Retirement Board has adopted a local option under G.L. c. 32, § 20(4) (c). The Board consists of a first and second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by PERAC after being nominated by the other four board members.

Ex-officio Member:	Edward J. Spellman	Until a successor is named
Appointed Member:	Peter J. Morin	Until a successor is named
Elected Member:	Gerald J. Kenny, Jr. Chairman	Term Expires: 6/30/14
Elected Member:	Phyllis DiPalma	Term Expires: 6/30/14
Appointed Member:	Edward Dowd	Until a successor is named

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	\$50,000,000 Fiduciary Liability
Ex-officio Member:	)	\$1,000,000 Fidelity (ERISA) Bond
Elected Members:	)	MACRS Policy
Appointed Members:	)	St.Paul ,Travelers, National Union
Staff Employees:	)	Fire and Arch

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2010.

The actuarial liability for active members was	\$89,591,332
The actuarial liability for inactive members was	824,522
The actuarial liability for retired members was	<u>112,360,848</u>
The total actuarial liability was	\$202,776,702
System assets as of that date were	<u>137,153,350</u>
The unfunded actuarial liability was	<u>\$65,623,352</u>
The ratio of system's assets to total actuarial liability was	67.6%
As of that date the total covered employee payroll was	\$35,050,919

The normal cost for employees on that date was 9.1% of payroll  
 The normal cost for the employer was 4.5% of payroll

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

Investment Return: 7.88% per annum  
 Rate of Salary Increase: 4.25% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

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 )
1/1/2010	\$137,153,350	\$202,776,702	\$65,623,352	67.6%	\$35,050,919	187.2%
1/1/2008	\$141,345,518	\$189,265,970	\$47,920,452	74.7%	\$33,893,980	141.4%
1/1/2006	\$119,721,733	\$167,313,371	\$47,591,638	71.6%	\$30,861,000	154.2%
1/1/2004	\$103,345,161	\$151,323,646	\$47,978,485	68.3%	\$29,450,291	162.9%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retirement in Past Years</b>										
Superannuation	21	18	24	11	15	18	22	18	13	14
Ordinary Disability	1	1	0	0	0	0	2	0	0	0
Accidental Disability	3	4	3	3	1	2	0	1	1	0
<b>Total Retirements</b>	25	23	27	14	16	20	24	19	14	14
Total Retirees, Beneficiaries and Survivors	483	484	498	495	483	509	510	504	506	498
Total Active Members	754	732	733	799	809	864	749	756	724	722
<b>Pension Payments</b>										
Superannuation	\$4,072,994	\$4,482,327	\$4,680,129	\$5,454,847	\$5,753,538	\$6,304,554	\$6,747,579	\$7,017,161	\$7,225,990	\$7,502,306
Survivor/Beneficiary Payments	372,029	430,058	448,789	452,250	510,103	545,337	682,983	646,873	681,158	719,025
Ordinary Disability	134,956	203,690	206,078	184,935	168,956	172,095	214,979	233,257	236,783	226,075
Accidental Disability	1,043,071	1,379,566	1,546,811	1,714,665	1,985,085	1,772,322	1,802,277	1,807,370	1,833,169	1,848,884
Other	<u>1,059,366</u>	<u>901,941</u>	<u>1,298,823</u>	<u>978,923</u>	<u>1,005,255</u>	<u>1,063,014</u>	<u>1,108,938</u>	<u>1,103,343</u>	<u>1,723,073</u>	<u>1,862,807</u>
<b>Total Payments for Year</b>	<u>\$6,682,416</u>	<u>\$7,397,582</u>	<u>\$8,180,630</u>	<u>\$8,785,620</u>	<u>\$9,422,937</u>	<u>\$9,857,322</u>	<u>\$10,556,756</u>	<u>\$10,808,003</u>	<u>\$11,700,173</u>	<u>\$12,159,097</u>

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