PERAC AUDIT REPORT

Essex Regional Contributory Retirement System

JAN. 1, 2009 - DEC. 31, 2011

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

July 31, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Essex Regional Retirement Board 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 findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and James Ryan 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

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation

30% of the units revealed issues related to the pay type used to determine if the earnings were considered regular compensation subject to retirement deductions. There were 34 questionable pay codes generally classified as pensionable earnings that require clarification and follow up contact with the unit employer. Many of these types of compensation did not appear to be consistent with the definition of regular compensation cited in 840 CMR 15.03.

Recommendation: All units must be informed on an ongoing basis of all retirement qualifying types of pay, as stipulated by Chapter 21 of the Acts of 2009 and recently revised PERAC regulation 840 CMR 15.03. These include payment for service rendered that was "predetermined, non-discretionary and guaranteed payments paid by the employer to similarly situated employees". The Essex Regional Retirement Board must be the ultimate authority to determine compensation that qualifies for retirement contributions subject to and within the guidelines prescribed in 840 CMR 15.03. The system must proactively identify staff changes within their payroll reporting units to minimize issues relating to the interpretation of what qualifies as regular compensation. We recommend the system require employers to advise the Retirement Board of all new payroll codes initiated by each unit payroll officer.

<u>Board Response:</u>

ERRS agrees with PERAC's audit finding that some units have improper pay codes that need to be corrected and that the retirement system must clearly determine what earnings constitute regular compensation.

Beginning in 2012, ERRS staff regularly meets once per year on-site with the payroll coordinators of each unit to discuss all payroll and retirement related issues. Going forward, we will make a priority of correcting the pay codes referenced in PERAC's audit during these meetings and in our regular communication with the units.

PERAC correctly states that the lack of clearly stated definition of regular compensation was a significant problem for the retirement system for many years. In October of 2012, the Board addressed the issue when, after many months of study, ERRS adopted Policy memo #12-12 defining regular compensation by adopting PERAC's definition in 840 CMR 15.03.

2. Member Contributions

Approximately a quarter of the units disclosed issues related to the correct application of the additional 2% contribution required to be withheld from those members who earn over $30,000 and were hired after January 1, 1979. We observed cases that a member initially did not qualify for the requirements of the 2% additional contribution. However, promotions, pay raises, changes to assigned duties and similar circumstances resulted in compensation that did qualify for the additional 2% level.

Four units did not provide a result for any method recognized to confirm the member contributions withheld for the employees.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

Recommendation: According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay during any given pay-period exceeds an annualized rate of $30,000 are subject to the additional 2% contribution. The Board must instruct payroll officials to deduct the additional 2% every pay period that earnings exceed this annualized rate of $30,000. The Board should be actively providing direction to the unit employers to ensure the system complies with the statute and PERAC directives listed above. It should be the default position of every qualifying member to impose the 2% additional contribution for any pay period that exceeds the annualized requirements.

<u>Board Response:</u>
ERRS agrees with this finding and will continue our efforts to clarify to our units the proper application of the 2% withholding to member earnings. In 2013, ERRS implemented an automated deduction reporting process to eventually eliminate the paper-based manual posting of monthly deduction reports received from each of our 48 units covering over 3,500 members. Automated deduction reporting will provide us with additional time to analyze the monthly deduction reports and give us greater ability to insure the proper application of the additional 2% withholding.

The Board also took steps in 2012 to correct the misapplication of the 2% withholding by the prior Board. After many months of research and anaylsis and with the assistance of Counsel, the Board provided staff with a clear statement of the proper application of the 2% withholding. The current Board also corrected many past errors that were discovered and refunded to members and retirees thousands of dollars improperly withheld due to the misapplication of the 2% deduction.

3. Alternative Retirement Plan Participation
We identified three units that were allowing some employees to contribute to the Social Security system. Social Security is not an option available for public employees in Massachusetts without an executed, current, valid 218 Agreement between the employer and the Social Security Administration.

Recommendation: The Essex Regional Retirement System should obtain and maintain a file of all valid or modified Section 218 Agreements currently approved by the Social Security Administration for any employer unit within the system. Any employer units participating in Social Security without such Agreement should be advised to have such employees enrolled as members of the Essex Retirement system if otherwise deemed eligible for such membership. Pursuant to G.L. c. 29, § 64 D, employees who are not eligible for membership in a retirement system are required to participate in a deferred compensation program established by the employer. Each employer must evaluate the status of these employees and establish a qualified program to enroll those eligible employees. This is generally accomplished through an "OBRA" plan managed by an independent trustee.

The implementation of these recommendations will provide additional layers of internal control to confirm that contributions are accurate and benefits are earned within the established rules.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

ERRS agrees with PERAC's audit finding that our units should be aware of the requirements pertaining to the withholding of Social Security from employees who are not members of the retirement system. The Executive Director will send a letter to the Chief Executives of all ERRS units to advise them of the finding in this audit.

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
Net Assets Available For Benefits:			
Cash	$12,370,597	$7,939,962	$12,470,777
Short Term Investments	0	552,084	0
Fixed Income Securities (at fair value)	10,214	15,672	19,746
Equities	4	3	46,611,733
Pooled Domestic Equity Funds	0	4,012,940	55,326,402
Pooled International Equity Funds	0	0	31,917,659
Pooled Alternative Investment Funds	13,891,379	7,990,808	62,197,579
Pooled Real Estate Funds	13,894,074	11,516,705	8,557,646
Hedge Funds	0	0	25,329,821
PRIT Cash Fund	0	0	0
PRIT Core Fund	228,033,402	236,458,951	0
Interest Due and Accrued	319	240	321
Accounts Receivable	1,987,135	924,717	128,668
Premises and Equipment, Net	245,783	257,041	268,299
Accounts Payable	(40,938)	(71,400)	(110,460)
Total	$270,391,969	$269,597,722	$242,718,192
Fund Balances:			
Annuity Savings Fund	$102,898,164	$98,807,201	$92,874,164
Annuity Reserve Fund	32,451,522	30,373,420	29,140,594
Pension Fund	12,824,497	19,366,976	20,271,094
Military Service Fund	24,909	24,859	24,785
Expense Fund	0	0	0
Pension Reserve Fund	122,192,877	121,025,267	100,407,555
Total	$270,391,969	$269,597,722	$242,718,192

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)	$88,892,104	$27,882,428	$26,714,115	$24,661	$0	$62,652,302	$206,165,610
Receipts	10,546,605	834,748	19,635,860	4,906	2,110,919	37,476,058	70,609,095
Interfund Transfers	(4,668,284)	4,673,293	136	(4,783)	0	279,195	279,557
Disbursements	(1,896,260)	(4,249,874)	(26,079,017)	0	(2,110,919)	0	(34,336,070)
Ending Balance (2009)	92,874,164	29,140,594	20,271,094	24,785	0	100,407,555	242,718,192
Receipts	12,764,312	895,200	20,006,454	74	2,642,534	26,671,677	62,980,251
Interfund Transfers	(4,883,922)	4,883,922	6,053,966	0	0	(6,053,966)	0
Disbursements	(1,947,352)	(4,546,297)	(26,964,537)	0	(2,642,534)	0	(36,100,721)
Ending Balance (2010)	98,807,201	30,373,420	19,366,976	24,859	0	121,025,267	269,597,722
Receipts	12,090,869	933,481	22,260,093	50	2,427,802	1,174,711	38,887,005
Interfund Transfers	(6,207,003)	6,214,103	0	0	0	(7,100)	0
Disbursements	(1,792,902)	(5,069,482)	(28,802,572)	0	(2,427,802)	0	(38,092,758)
Ending Balance (2011)	$102,898,164	$32,451,522	$12,824,497	$24,909	$0	$122,192,877	$270,391,969

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Annuity Savings Fund:			
Members Deductions	$10,691,823	$11,544,245	$9,222,615
Transfers from Other Systems	847,551	485,174	484,417
Member Make Up Payments and Re-deposits	167,421	105,544	197,847
Member Payments from Rollovers	169,835	343,865	213,456
Investment Income Credited to Member Accounts	214,239	285,484	428,270
Sub Total	12,090,869	12,764,312	10,546,605
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	933,481	895,200	834,748
Sub Total	933,481	895,200	834,748
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	690,322	674,855	1,065,270
Received from Commonwealth for COLA and Survivor Benefits	827,067	291,424	318,797
Pension Fund Appropriation	20,732,070	19,035,175	18,195,293
Settlement of Workers' Compensation Claims	10,634	5,000	56,500
Sub Total	22,260,093	20,006,454	19,635,860
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	4,783
Investment Income Credited to the Military Service Fund	50	74	123
Sub Total	50	74	4,906
Expense Fund:			
Investment Income Credited to the Expense Fund	2,427,802	2,642,534	2,110,919
Sub Total	2,427,802	2,642,534	2,110,919
Pension Reserve Fund:			
Federal Grant Reimbursement	109,408	101,572	57,986
Interest Not Refunded	1,335	13,126	27,225
Miscellaneous Income	1,098	5,000	142,031
Excess Investment Income	1,062,870	26,551,980	37,248,817
Sub Total	1,174,711	26,671,677	37,476,058
Total Receipts, Net	$38,887,005	$62,980,251	$70,609,095

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	$885,128	$995,492	$1,314,367
Transfers to Other Systems	907,774	951,860	581,894
Sub Total	1,792,902	1,947,352	1,896,260
Annuity Reserve Fund:			
Annuities Paid	4,924,269	4,492,434	4,054,609
Option B Refunds	145,213	53,864	195,265
Sub Total	5,069,482	4,546,297	4,249,874
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	21,040,188	19,973,945	18,275,372
Survivorship Payments	1,521,466	1,352,405	1,391,428
Ordinary Disability Payments	170,025	197,430	223,387
Accidental Disability Payments	2,828,529	2,909,020	2,815,465
Accidental Death Payments	533,033	634,493	661,459
Section 101 Benefits	106,353	109,279	52,928
3 (8) (c) Reimbursements to Other Systems	2,113,939	1,752,294	2,658,978
State Reimbursable COLA's Paid	489,039	35,672	0
Sub Total	28,802,572	26,964,537	26,079,017
Expense Fund:			
Board Member Stipend	14,750	12,000	15,000
Salaries	424,196	443,949	592,285
Legal Expenses	224,422	277,431	231,736
Medical Expenses	559	82	244
Travel Expenses	1,266	4,874	12,443
Administrative Expenses	178,105	106,999	124,245
Professional Services	4,070	37,268	89,950
Actuarial Services	30,863	7,944	15,778
Education and Training	5,708	653	0
Furniture and Equipment	12,901	6,026	2,784
Management Fees	1,380,424	1,504,206	780,256
Custodial Fees	43,367	87,977	83,495
Consultant Fees	39,500	61,803	78,161
Condominium Occupancy Expenses	20,509	19,140	17,100
Service Contracts	11,652	37,601	34,668
Fiduciary Insurance	24,252	23,324	21,517
Depreciation	11,258	11,258	11,258
Sub Total	2,427,802	2,642,534	2,110,919
Total Disbursements	$38,092,758	$36,100,721	$34,336,070

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Investment Income Received From:			
Cash	$32,245	$44,457	$63,830
Short Term Investments	0	1,692	0
Fixed Income	4,243	5,566	336,393
Equities	5,077	61,606	517,817
Pooled or Mutual Funds	8,012,716	6,070,734	876,360
Commission Recapture	0	3,006	0
Total Investment Income	8,054,281	6,187,059	1,794,399
Plus:			
Realized Gains	7,497,889	6,168,578	5,661,421
Unrealized Gains	27,060,268	46,609,575	58,179,217
Interest Due and Accrued - Current Year	319	240	321
Sub Total	34,558,476	52,778,393	63,840,959
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(28,048)
Realized Loss	(1,535,811)	(2,667,127)	(4,721,576)
Unrealized Loss	(36,438,265)	(25,922,733)	(18,215,628)
Interest Due and Accrued - Prior Year	(240)	(321)	(2,047,230)
Sub Total	(37,974,315)	(28,590,181)	(25,012,481)
Net Investment Income	4,638,441	30,375,272	40,622,876
Income Required:			
Annuity Savings Fund	214,239	285,484	428,270
Annuity Reserve Fund	933,481	895,200	834,748
Military Service Fund	50	74	123
Expense Fund	2,427,802	2,642,534	2,110,919
Total Income Required	3,575,572	3,823,292	3,374,060
Net Investment Income	4,638,441	30,375,272	40,622,876
Less: Total Income Required	3,575,572	3,823,292	3,374,060
Excess Income (Loss) To The Pension Reserve Fund	$1,062,870	$26,551,980	$37,248,817

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2011	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$12,370,597	4.6%
Fixed Income Securities (at book value)	10,214	0.0%
Equities	4	0.0%
Pooled Alternative Investment Funds	13,891,379	5.2%
Pooled Real Estate Funds	13,894,074	5.2%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	228,033,402	85.0%
Grand Total	$268,199,670	100.0%

For the year ending December 31, 2011, the rate of return for the investments of the Essex Regional Retirement Board Retirement System was 0.53%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Essex Regional Retirement Board Retirement System averaged 0.80%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Essex Regional Retirement Board Retirement System was 8.54%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the 27-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 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Essex Regional Retirement Board Retirement System has eighty-five per cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Essex Regional Retirement Board Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: http://www.mass.gov/perac/investsup/essexintsup.html

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Essex Regional Retirement Board 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.

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. 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 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. c. 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 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 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.

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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Creditable Service
March 22, 2013
Members of the Essex Regional Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Essex Regional Retirement System ("System"), with said service not to exceed one (1) year of creditable service in any calendar year.

For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member who has rendered membership service in the System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 150 hours being the equivalent of one (1) month of service.

For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 150 hours per month.

In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 30th, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the System as set forth in this regulation.

The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable service for 10 months employees shall be based on 1,500 hours being the equivalent of 1 year, whereas creditable service for 12 month employees shall be based on 1,820 hours per year.

Any member purchasing past part-time service rendered shall have said service prorated base on 150 hours being considered a full month of creditable service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases part-time service rendered, will have all creditable service deemed to be full-time.

Members of the System may only purchase and receive credit for past service rendered in a member unit of the System, or if the past service was rendered under the jurisdiction of another retirement system, such service may only be purchased if rendered in a temporary, provisional or substitute capacity, provided that the individual was excluded from membership in the other retirement system. All prior non-membership service shall be calculated with 150 hours being the equivalent of one (1) month of creditable service.

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Membership

September 24, 1996

Elected Officials

That if an elected official is not a member of the retirement system before their election by popular vote, they do not have to join the system; but they may join by applying for membership, in writing, within ninety (90) days of assuming their elective office.

Travel

The Essex Regional Retirement Board 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/03travelreg/essextravelreg.html

In addition, a supplemental regulation related to travel was approved by the Public Employee Retirement Administration Commission on:

August 2, 2004

In cases where overnight travel and accommodations are required, the Board is authorized to approve reimbursements related to reasonable and necessary expenses incurred the day before the scheduled event and the day after the scheduled event. “Scheduled event” is meant the event giving rise to the legitimate travel attendance.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the First Member who shall be elected by the chief executive officers of the participating units, a second member elected by the Advisory Council, 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 the other four board members.

First Member:	Ira S. Singer	Term Expires:	12/2/2013
Second Member:	Kevin A. Merz	Term Expires:	12/2/2013
Elected Member:	Susan J. Yaskell	Term Expires:	12/2/2013
Elected Member:	H. Joseph Maney, Chair	Term Expires:	12/2/2013
Appointed Member:	Vincent R. Malgeri	Term Expires:	12/13/2015

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:	)	Coverage provided under a master MACRS
Ex-officio Member:	)	sponsored policy from Travelers Casualty and Surety
Elected Members:	)	Company of America. $50,000,000 Fiduciary policy,
Appointed Members:	)	Deductible of $10,000. Commercial Crime Policy
Staff Employees:	)	With ERISA endorsement to a limit of $1,000,000,
		Deductible of $10,000.

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, 2011.

The actuarial liability for active members was	$253,348,484
The actuarial liability for retired members was	282,767,052
The total actuarial liability was	$536,115,536
System assets as of that date (actuarial value) were	278,332,006
The unfunded actuarial liability was	$257,783,530
The ratio of system's assets to total actuarial liability was	51.9%
As of that date the total covered employee payroll was	$119,707,156

The normal cost for employees on that date was	9.3% of payroll
The normal cost for the employer was	5.6% of payroll

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

Investment Return:	8.25% per annum
Rate of Salary Increase:	5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2011

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)
1/1/2011	$278,332,006	$536,115,536	$257,783,530	51.9%	$119,707,156	215.3%
1/1/2008	$301,420,965	$445,171,554	$143,750,589	67.7%	$111,726,856	128.7%
1/1/2006	$261,327,047	$376,034,621	$114,707,574	69.5%	$98,641,094	116.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	32	64	8	73	75	14	12	76	73	85
Ordinary Disability	0	1	0	1	1	0	0	0	0	0
Accidental Disability	0	4	1	6	7	0	0	5	2	2
Total Retirements	32	69	9	80	83	14	12	81	75	87
Total Retirees, Beneficiaries and Survivors	1,480	1,501	1,498	1,580	1,615	1,584	1,585	1,664	1,750	1,717
Total Active Members	3,300	3,146	3,015	2,987	3,144	3,188	3,329	3,088	3,098	3,072
Pension Payments										
Superannuation	$10,527,968	$11,878,170	$13,004,480	$13,806,107	$15,242,933	$16,339,609	$17,941,774	$18,275,372	$19,973,945	$21,040,188
Survivor/Beneficiary Payments	977,893	1,037,535	1,127,176	1,195,411	1,203,013	1,235,070	1,129,351	1,391,428	1,352,405	1,521,466
Ordinary Disability	288,299	290,690	336,560	281,611	307,634	225,419	215,051	223,387	197,430	170,025
Accidental Disability	1,741,172	1,832,263	2,012,159	2,114,484	2,386,624	2,558,249	2,719,656	2,815,465	2,909,020	2,828,529
Other	936,365	978,071	1,017,337	1,164,938	4,648,530	4,355,272	710,109	3,373,365	2,531,738	3,242,363
Total Payments for Year	$14,471,697	$16,016,729	$17,497,712	$18,562,551	$23,788,734	$24,713,619	$22,715,941	$26,079,017	$26,964,537	$28,802,572

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - PREMISES OWNED AND OCCUPIED

The Essex Regional Retirement Board Retirement Board occupies two commercial condominium units located in the Hathorne section of Danvers. Both units were acquired by purchase in June, 2000. The combined original cost of both units was $375,250. The purchase cost was charged directly to the expense fund in calendar year 2000. In 2009, the purchase was capitalized to comply with the provisions of GASB #34. The useful life of this asset is estimated to be thirty years. The unit is being depreciated using the straight line method over this period. The annual depreciation associated with this office condominium is $11,258. The costs of normal maintenance and repairs that do not add to the value or materially extend the useful life of these units are not capitalized but expensed during the current year. Fees are assessed by a management company for maintenance of common areas and normal expenses associated with commercial building and parking areas. There is no mortgage or other short term or long term debt associated with this acquisition. The retirement board conducts the normal course of its administrative activities, counsels' members and retirees, maintains the records and holds the required regular public Board meetings from this location.

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