PERAC AUDIT REPORT

Everett

Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, *Executive Director*

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

July 22, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Everett Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners James Ryan and William Walsh 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. Wire Transfers:

The Treasurer for the city of Everett wires an amount from the Citizens Bank vendor checking account to the Citizens Bank retiree payroll account to cover member refund and transfer disbursements. This monthly transaction is not recorded on the general ledger (GL). The transaction should be recorded to the GL 1041 account. Furthermore, the actual refund and transfer payments to the members are paid out of the retiree payroll account but recorded on the GL to the vendor checking account 1040.

Recommendation: In order to ensure that the integrity of transactions reported in the GL are valid, the Treasurer's monthly refund and transfer wire must be recorded on the GL. Actual refund and transfer disbursements must be recorded to the retiree payroll bank account GL 1041.

Board Response:

Journal entries were made to reflect that refunds and transfers are paid from the Citizens Payroll Account and future entries will be made accordingly as the finding recommends. The Citizens Payroll account is a zero balance companion account for the Citizens Checking Account. The effect on accounting is to increase the debits and credits by an equal amount for the payroll account and no account balances were affected in any time period. All transfers and refunds were properly processed and paid. The Board appreciates that this matter was brought to our attention, and notes the issue was resolved immediately and the adjustments were presented to the PERAC Auditors at the exit conference.

2. Member Deductions:

The auditor reviewed the December 31, 2012 payroll register to validate that retirement payroll deductions were being properly withheld. It was observed that members in the DPW department who receive an annual tool allowance stipend were set up in the payroll system to have retirement deductions withheld. Pursuant to 840 CMR 15.03 (3)(f) the term "regular compensation" as defined by M.G.L. c. 32 § 1, shall not include a tool allowance.

Recommendation: The retirement deductions withheld from the tool allowance must be refunded back to the members for the years 2010-2012. The code in the payroll system should be changed to disallow retirement deductions on a tool allowance.

Board Response:

Six employees of the DPW receive an annual tool allowance of $200. According to the 2009 Pension Reform Act, the Board requested that the payroll company retained by the City change the code so that tools would be non-pensionable, and a new pay-type for tools was added to the non-pensionable pay types. The City's payroll company informed the Board that for historical purposes the pensionable tools must remain in the system. The six employees were under a contract that expired 6/30/13, and according to the Pension Reform Act, tools were considered regular compensation until 6/30/12. Despite being advised by the retirement office, the incorrect code was used by a city payroll clerk on 7/1/12. The Retirement office does not submit payroll data for individual employees; in this case, it was the DPW payroll clerk. The retirement office's responsibility is to monitor deductions, and to inform them of any errors that affect retirement deductions, which was done.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

FINAL DETERMINATION:
PERAC Audit staff will follow up in six months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	$456,129	$195,255	$136,791
PRIT Cash Fund	300,104	200,099	400,145
PRIT Core Fund	78,384,279	66,324,544	64,634,030
Accounts Receivable	16,926	239,700	35,623
Accounts Payable	0	(230)	(15)
Total	$79,157,438	$66,959,367	$65,206,574
Fund Balances:			
Annuity Savings Fund	$32,666,724	$30,961,351	$30,135,664
Annuity Reserve Fund	6,921,244	7,171,633	6,845,046
Pension Fund	8,081,628	6,224,833	4,553,071
Military Service Fund	16,134	26,292	23,848
Expense Fund	0	0	0
Pension Reserve Fund	31,471,709	22,575,258	23,648,946
Total	$79,157,438	$66,959,367	$65,206,574

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 (2010)	$28,098,755	$7,390,389	$2,735,359	$19,745	$0	$16,130,431	$54,374,680
Receipts	3,291,903	211,257	11,826,782	4,103	457,196	7,518,515	23,309,756
Interfund Transfers	(603,126)	603,126	0	0	0	0	0
Disbursements	(651,869)	(1,359,726)	(10,009,071)		(457,196)	0	(12,477,862)
Ending Balance (2010)	30,135,664	6,845,046	4,553,071	23,848	0	23,648,946	65,206,574
Receipts	3,012,038	217,302	12,320,163	2,444	536,257	(1,073,901)	15,014,303
Interfund Transfers	(1,544,823)	1,555,008	(10,399)	0	0	213	(0)
Disbursements	(641,528)	(1,445,723)	(10,638,002)		(536,257)	0	(13,261,510)
Ending Balance (2011)	30,961,351	7,171,633	6,224,833	26,292	0	22,575,258	66,959,367
Receipts	3,285,327	213,010	12,703,267	32	577,013	8,895,767	25,674,416
Interfund Transfers	(1,089,389)	1,103,291	(4,395)	(10,190)	0	684	0
Disbursements	(490,565)	(1,566,689)	(10,842,077)		(577,013)	0	(13,476,345)
Ending Balance (2012)	$32,666,724	$6,921,244	$8,081,628	$16,134	$0	$31,471,709	$79,157,438

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$2,973,612	$2,883,271	$2,918,945
Transfers from Other Systems	226,904	16,620	230,990
Member Make Up Payments and Re-deposits	51,588	39,824	47,643
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	33,222	72,322	94,326
Sub Total	3,285,327	3,012,038	3,291,903
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement			
Investment Income Credited to the Annuity Reserve Fund	213,010	217,302	211,257
Sub Total	213,010	217,302	211,257
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	214,224	194,668	185,883
Received from Commonwealth for COLA and Survivor Benefits	412,169	437,660	464,434
Pension Fund Appropriation	12,060,875	11,687,835	11,166,466
Settlement of Workers' Compensation Claims	16,000	0	10,000
Recovery of Pension from Reinstatement	0	0	0
Recovery of 91A Overearnings	0	0	0
Sub Total	12,703,267	12,320,163	11,826,782
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	2,396	4,043
Investment Income Credited to the Military Service Fund	32	48	59
Sub Total	32	2,444	4,103
Expense Fund:			
Investment Income Credited to the Expense Fund	577,013	536,257	457,196
Sub Total	577,013	536,257	457,196
Pension Reserve Fund:			
Federal Grant Reimbursement	38,442	38,054	41,012
Pension Reserve Appropriation	80,108	0	0
Interest Not Refunded	625	4,059	9,425
Miscellaneous Income	0	0	0
Excess Investment Income	8,776,591	(1,116,014)	7,468,078
Sub Total	8,895,767	(1,073,901)	7,518,515
Total Receipts, Net	$25,674,416	$15,014,303	$23,309,756

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$265,907	$384,937	$463,511
Transfers to Other Systems	224,658	256,591	188,357
Sub Total	490,565	641,528	651,869
Annuity Reserve Fund:			
Annuities Paid	1,484,194	1,443,457	1,348,195
Option B Refunds	82,495	2,266	11,531
Sub Total	1,566,689	1,445,723	1,359,726
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,388,427	6,383,804	6,057,392
Survivorship Payments	648561.15	605,353	623,125
Ordinary Disability Payments	222,605	186,360	174,267
Accidental Disability Payments	2,101,598	2,060,920	1,889,747
Accidental Death Payments	890,076	873,112	952,468
Section 101 Benefits	250,061	240,046	193,028
3 (8) (c) Reimbursements to Other Systems	340,749	288,407	119,043
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	10,842,077	10,638,002	10,009,071
Expense Fund:			
Board Member Stipend	18,000	17,000	18,000
Salaries	131,153	127,370	125,556
Legal Expenses	7,264	12,657	19,910
Medical Expenses	0	157	45
Travel Expenses	0	0	87
Administrative Expenses	4,900	2,661	2,533
Education and Training	2,904	1,384	1,535
Furniture and Equipment	0	0	0
Management Fees	383,369	326,866	268,730
Service Contracts	22,475	41,435	14,326
Fiduciary Insurance	6,949	6,727	6,473
Sub Total	577,013	536,257	457,196
Total Disbursements	$13,476,345	$13,261,510	$12,477,862

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Investment Income Received From:			
Cash	$4,182	$162	$1,511
Pooled or Mutual Funds	2,282,061	1,993,196	1,645,931
Total Investment Income	2,286,243	1,993,358	1,647,442
Plus:			
Realized Gains	1,849,412	2,015,952	1,551,114
Unrealized Gains	9,632,378	6,513,361	11,750,620
Interest Due and Accrued - Current Year	0	0	0
Sub Total	11,481,790	8,529,313	13,301,734
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	0	(39,337)	(45,498)
Unrealized Loss	(4,168,164)	(10,773,419)	(6,672,762)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	(4,168,164)	(10,812,756)	(6,718,260)
Net Investment Income	9,599,869	(290,085)	8,230,916
Income Required:			
Annuity Savings Fund	33,222	72,322	94,326
Annuity Reserve Fund	213,010	217,302	211,257
Military Service Fund	32	48	59
Expense Fund	577,013	536,257	457,196
Total Income Required	823,277	825,929	762,838
Net Investment Income	9,599,869	(290,085)	8,230,916
Less: Total Income Required	823,277	825,929	762,838
Excess Income (Loss) To The Pension Reserve Fund	$8,776,591	($1,116,014)	$7,468,078

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$456,129	0.6%
PRIT Cash Fund	300,104	0.4%
PRIT Core Fund	78,384,279	99.0%
Grand Total	$79,140,512	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Everett Retirement System was 13.85%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Everett Retirement System averaged 1.47%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Everett Retirement System was 8.21%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

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

September 1, 2005
The Everett Retirement System voted on 7/27/05, to invest all of the system's assets with the PRIT fund as of 9/1/05. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Everett 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

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 person who became a member before April 2, 2012 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

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

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). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

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.

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, s.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 those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

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 $774.36 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

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 $774.36 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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 while in the performance of his duties that results 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 $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

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. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

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%. Only a certain portion 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, Section 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. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base 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 has not remarried, 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. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each 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 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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership
April 17, 2001
Removal of Make-up Payments
MAKE-UP PAYMENTS

- Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund.

- Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

January 9, 2001
Persons who are scheduled to be employed a total of 20 hours per week or more in any job or combination of jobs for at least 7 months in a calendar year are eligible for membership in the retirement system. Persons who do not meet the minimum membership requirements as stated above are not eligible for membership.

Membership is mandatory for all employees who are eligible for membership.

All eligible employees shall be enrolled in the system at the inception of their employment.

Appointed members of boards, commissions, and authorities are not eligible for membership. No creditable service shall be granted for the same, nor will they be eligible to buy back credit for such work.

Permanent full time substitute teachers and permanent full time tutors are allowed in system. Non-permanent and/or non-full time substitute teachers and non-permanent and/or non-full time tutors are not allowed in system.

Creditable Service
A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro rata to the appropriate full year. A full year shall be based on a 12-month calendar year for all employees with the exception of school department personnel which shall be based on 180 work days per year.

Full time employment shall be considered a workweek of 30 hours or more. Each week of full time employment for a member shall be granted a full week of creditable service.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable service for members, who work less than 30 hours per week, shall be calculated on a prorated basis as it relates to full time employment. The denominator in calculating this prorated time shall be 30 hours per week. For example a member working 12 hours per week shall be granted creditable service for 40% (12/30=40%) of one workweek.

Members who are employed less than 30 hours per week and who work a set amount of hours on a consistent basis throughout their career will receive full creditable service provided that they have not been full time/part time employees as previously stated.

Make –up Payments

Members may request, in writing, permission to make up payments for their previous employment if the Retirement System from which they were previously employed is established within Chapter 32.

Each member requesting permission to make payments for their previous employment shall provide the retirement system with a verified list of salaries earned by them, by calendar year, not including any overtime or bonuses and hours worked on a weekly basis so that eligibility can be determined and a payment can be calculated.

Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund.

Members of any retirement system established under Chapter 32 may purchase past creditable service from the Everett Retirement System consistent with the provisions of Chapter 32, PERAC regulations and supplemental regulations of the Everett Retirement Board.

Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

Regular Compensation

Regular compensation for purposes of the retirement deductions and retirement allowance calculations shall consist of salary earned, longevity pay, auto allowance, and other such expenses paid on a regular basis and at a regular rate for all employees. Excluded from regular compensation is any compensation resulting from working overtime such as overtime compensation and meal allowances. For fire and police department personnel, regular compensation shall also include night differential, adjunct allowance, holiday pay and hazardous duty material training for fire department personnel only (unless such compensation was considered over-time compensation).

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Date of monthly Board Meetings

Retirement board meetings to be held on the last Wednesday of the month at 9:00 AM unless a majority of the board votes otherwise.

Service Buyback Policy

Members of the retirement system may purchase creditable service for previous service with a Massachusetts governmental unit, consistent with the provisions of Chapter 32, in which they received a refund of contributions upon termination. Members may also, in certain situations consistent with the provisions of Chapter 32, purchase creditable service for previous service for a governmental unit in which deductions were not taken. The policy stated below pertains only to the method of purchasing back previous service and is not intended to add to or modify any provisions in Chapter 32 or PERAC regulations concerning the definition of creditable service.

It will be the policy of the Everett Retirement Board to require that any request to purchase applicable creditable service will be based on a payment plan submitted by the member, and subject to board approval, that will pay the necessary amount, including interest, within a five-year period. Furthermore, the member shall make the payments on an annual basis to the Everett Retirement Board. The member may elect to make periodic payments to a financial institution and instruct such institution to make the necessary annual payment to the Everett Retirement Board. The staff of the retirement system will advise members of financial institutions, if any, who may provide this service.

Members who are unable to purchase their creditable service within a five-year period due to a proven hardship may petition the board for a period of payment in excess of five years. The petition to the board must clearly demonstrate the financial hardship in writing to the board. The Everett Retirement Board will review each such request and will vote to accept, reject, or request modifications/clarifications to such petition.

These supplemental rule provides rules for membership, creditable service, make up payments, regular compensation, meetings, and service buyback and are consistent with the provisions of G.L. c. 32.

The following proposed regulation is not approved for the reasons outlined below.

Make-up Payments

Buyback of prior non-membership service of less than eight consecutive weeks that was not immediately followed by membership service is not allowed.

Pursuant to G.L. c. 32, § 4(1)(a), a member is entitled to purchase creditable service for past public employment. As a result, this portion of the board's proposed regulation conflicts with a provision of G.L. c. 32 and can not be approved. The Commission will review a revised regulation on this issue which does not conflict with G.L. c. 32 when it is submitted.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Membership
December 30, 1998
1.03: Prohibition Against Certain Persons Holding Certain Positions

No individual who has been convicted of robbery, bribery, extortion, embezzlement, fraud, grand larceny, burglary, arson, a felony violation of state or federal law defined in Section 102(a) of the Comprehensive Drug Abuse Prevention and Control Act or 1970, murder, rape, kidnapping, perjury, assault with intent to kill, any crime described in Section 9(a)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-9(a)(1)), a violation of Section 302 of the Labor-Management Relations Act, 1947 (29 U.S.C. 186), a violation of Chapter 63 of Title 18, United States Code, a violation of Section 874, 1027, 1503, 1505, 1506, 1510, 1951, or 1954 of Title 18 United States Code, a violation of the Labor-Management Reporting and Disclosure Act of 1959 (29 U.S.C. 401), any felony involving abuse or misuse of such person's position or employment in a labor organization or employee benefit plan to seek or obtain an **illegal gain** at the expense of the members of the labor organization or the beneficiaries of the employee benefit plan, or conspiracy to commit any such crimes, or a crime in which any of the foregoing is an element or has been found by the Commission or any court to have violated his/her fiduciary duty or has been found by the Ethics Commission or any court to have violated M.G.L. c. 268A, shall serve or be permitted to serve:

(1) As a member, administrator, fiduciary, officer, trustee, custodian, counsel, agent, employee or representative in any capacity of a board.

(2) As a consultant, manager or provider of goods or services to a board.

(3) In any capacity that involves decision making authority or custody or control of the monies, funds, assets or property of any system.

The undersigned hereby certifies that it has read the foregoing regulation, 840 CMR 1.03, that it has made a diligent thorough and reasonable inquiry of its agents and employees, and that no person who has been convicted or found in violation of the offenses listed in said regulation has any substantive dealings with the affairs of the Everett Retirement System in any capacity listed above. The undersigned further acknowledges and agrees that the obligation to screen its agents and employees under this regulation is a continuing one.

AGREEMENT OF INDEMNITY
The undersigned hereby agrees to indemnify the said Everett Retirement System for any pecuniary loss or damage or cost incurred by the Everett Retirement System as a result of any violation of said regulation resulting from the relationship of the undersigned to the Everett Retirement System.
August 24, 1994.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Membership
The Retirement Board will not require seasonal employees to join the retirement system.

Travel Regulations
August 29, 2002
The Everett 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/Everett.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a 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 the other four board members.

Ex-officio Member:	Richard Viscay		
Appointed Member:	Harold Mayo	Term Expires:	Until a successor is appointed
Elected Member:	Ronald D'Onofrio, Chairman	Term Expires:	4/14/15
Elected Member:	William Pierce	Term Expires:	12/29/14
Appointed Member:	Peter Cocciardi	Term Expires:	7/25/16

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 Coverage
Elected Members:	)	MACRS Master Policy
Appointed Members:	)	Travelers Casualty and Surety
Staff Employees:	)	Company of America

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2012.

The actuarial liability for active members was	$89,430,186
The actuarial liability for vested terminated members was	894,941
The actuarial liability for non-vested terminated members was	624,622
The actuarial liability for retired members was	96,978,543
The total actuarial liability was	$187,928,292
System assets as of that date were	72,235,508
The unfunded actuarial liability was	$115,692,784
The ratio of system's assets to total actuarial liability was	38.4%
As of that date the total covered employee payroll was	$31,557,017

The normal cost for employees on that date was	8.8% of payroll
The normal cost for the employer was	7.1% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by job, group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

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)
1/1/2012	$72,235,508	$187,928,292	$115,692,784	38.4%	$31,557,017	366.6%
1/1/2010	$63,848,040	$169,040,560	$105,192,520	37.8%	$31,213,272	337.0%
1/1/2008	$57,879,758	$156,991,271	$99,111,513	36.9%	$31,005,347	319.7%
1/1/2007	$50,378,155	$151,136,210	$100,758,055	33.3%	$27,430,119	367.3%

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	48	5	9	8	5	11	17	9	20	14
Ordinary Disability	1	0	0	0	0	0	2	2	1	1
Accidental Disability	3	4	0	0	0	3	2	0	1	1
Total Retirements	52	9	9	8	5	14	21	11	22	16
Total Retirees, Beneficiaries and Survivors	634	619	634	597	575	557	552	563	541	540
Total Active Members	646	605	528	544	547	629	672	584	639	662
Pension Payments										
Superannuation	$5,407,481	$5,828,149	$5,767,825	$5,790,487	$5,756,875	$5,832,059	$5,955,556	6,057,392	6,383,804	6,388,427
Survivor/Beneficiary Payments	502,960	578,958	571,916	577,702	665,612	626,373	609,015	623,125	605,353	648,561
Ordinary Disability	298,802	291,405	257,018	202,632	199,866	161,029	170,183	174,267	186,360	222,605
Accidental Disability	1,857,609	1,886,128	1,869,761	2,021,539	1,743,809	1,746,835	1,794,175	1,889,747	2,060,920	2,101,598
Other	1,576,356	1,373,313	1,398,539	1,545,595	1,531,774	1,285,964	1,269,487	1,264,540	1,131,566	1,480,885
Total Payments for Year	$9,643,208	$9,957,953	$9,865,059	$10,137,955	$9,897,936	$9,652,260	$9,798,416	$10,009,071	$10,368,002	$10,842,077

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