

# PERAC AUDIT REPORT



Framingham

Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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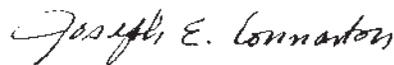
March 5, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Framingham 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 Martin J. Feeney and Susan W. Kerr who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Refunds Due Members**

A sample of members' contributions refunded during the three-year audit period disclosed a number of these refunds included an incorrect amount of interest. Members who leave public employment voluntarily after July 1, 2010 with less than ten years of creditable service are entitled to interest at a rate of 3% annually. The accrual of interest is limited to the two-year period immediately following the voluntary termination of employment. Our observation of the process used by the system determined that the current technology available to the system and provided by the software vendor was not being utilized.

**Recommendation:** PERAC Memo #31 2010 references the changes required by Chapter 131 of the Acts of 2010 that apply to the refund of contributions by members withdrawing from the system after July 1, 2010. G.L. c. 32, § 22(6)(d) specifies that "no regular interest shall be included in the amount of any accumulated total deductions which are to be paid to the member for any period after the expiration of two years from the end of the month immediately preceding the date of his termination of service." This "two-year rule" for interest must be followed for all refunds to inactive members. Repayment of amounts refunded in excess of the established limits should be requested from all recipients. We recommend that the Framingham Board use the available computer resources to calculate these refunds. Each of these refunds must be recalculated by a staff person and approved by the Board in advance of distribution to the member withdrawing from the system.

### **Board Response:**

Board staff is reviewing refunds which may have been issued with excess interest payments, and will seek repayment of amounts that are in excess of the statutory limits. The Board has recently changed software providers and is now utilizing new software technology to assist in calculating interest. Refunds are reviewed and approved by the Board prior to distribution.

## **2. Member Deductions**

In 2011 the Framingham Retirement Board issued an RFP seeking assistance in reviewing certain member files to confirm that accurate deductions were being withheld on regular compensation. In February 2012 the Framingham Retirement Board signed an agreement with a consultant to provide services relative to the inspection of certain member files. The consultant examined the files of all library personnel for the period from 1/1/04 to 12/4/09. It was determined that discrepancies did exist in the contributions withheld from the compensation of library personnel. A financial adjustment was reported to be necessary. The amount of \$9,881.44 will be refunded to members and \$582.06 will need to be collected from members who have not contributed the correct deduction amount. The consultant has indicated he will be initiating specific notification to each person affected. The resolution of this problem appears to be ongoing. The payroll detail of all library personnel for multiple pay periods was inspected during the current audit to ensure that deductions were currently calculated correctly.

**Recommendation:** The Framingham Retirement Board must ensure that the payroll contributions withheld from all members comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. A more extensive review process must be initiated to ensure compliance with these requirements. The System must periodically review complete payroll registers for compliance from all participating employer units. The System should

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

be notified of all new pay codes and determine whether they qualify as retirement compensation. In addition, all persons responsible for processing retirement deductions should receive copies of correspondence relating to new laws, regulations and other changes involving eligibility and contribution rates. These functions are designed to provide an additional layer of internal financial control to confirm that contributions are accurate and benefits are earned within the established rules.

### ***Board Response:***

The Board continues to resolve the correction of erroneous retirement withholdings from library personnel, and to ensure that retirement withholding complies with changes to the law regarding the definition of regular compensation. Communications with the member units' payroll staff have been enhanced to ensure timely notice of changes to payroll codes and member deductions.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2011	2010	2009
<b>Net Assets Available For Benefits:</b>			
Cash	\$75,108	\$272,767	\$309,365
PRIT Cash Fund	810,209	925,309	825,406
PRIT Core Fund	190,349,333	194,334,324	173,610,238
Accounts Payable	(7,580)	(6,922)	(900)
<b>Total</b>	<u>\$191,227,070</u>	<u>\$195,525,479</u>	<u>\$174,744,110</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$54,352,847	\$53,169,398	\$51,888,103
Annuity Reserve Fund	14,806,894	14,159,690	13,092,809
Pension Fund	4,922,133	5,841,229	2,403,336
Military Service Fund	4,973	4,963	4,948
Pension Reserve Fund	<u>117,140,224</u>	<u>122,350,199</u>	<u>107,354,913</u>
<b>Total</b>	<u>\$191,227,070</u>	<u>\$195,525,479</u>	<u>\$174,744,110</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2009)	\$48,300,573	\$14,095,534	\$5,931,043	\$4,924	\$0	\$83,064,544	\$151,396,618
Receipts	5,677,946	404,506	11,030,698	25	1,189,620	24,317,392	42,620,186
Interfund Transfers	(910,930)	937,954	0	0	0	(27,024)	(0)
Disbursements	(1,179,485)	(2,345,185)	(14,558,405)	0	(1,189,620)	0	(19,272,694)
Ending Balance (2009)	51,888,103	13,092,809	2,403,336	4,948	0	107,354,913	174,744,110
Receipts	5,327,325	405,188	11,352,449	15	1,139,944	22,008,629	40,233,549
Interfund Transfers	(3,225,268)	3,056,273	7,182,337	0	0	(7,013,342)	0
Disbursements	(820,762)	(2,394,581)	(15,096,893)	0	(1,139,944)	0	(19,452,180)
Ending Balance (2010)	53,169,398	14,159,690	5,841,229	4,963	0	122,350,199	195,525,479
Receipts	5,331,095	427,580	11,246,440	10	1,269,004	(1,566,243)	16,707,884
Interfund Transfers	(2,868,211)	2,884,443	3,627,499	0	0	(3,643,732)	0
Disbursements	(1,279,435)	(2,664,820)	(15,793,035)	0	(1,269,004)	0	(21,006,293)
Ending Balance (2011)	<u>\$54,352,847</u>	<u>\$14,806,894</u>	<u>\$4,922,133</u>	<u>\$4,973</u>	<u>\$0</u>	<u>\$117,140,224</u>	<u>\$191,227,070</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,899,852	\$4,824,085	\$4,851,774
Transfers from Other Systems	286,758	285,085	481,161
Member Make Up Payments and Re-deposits	44,548	73,886	108,293
Investment Income Credited to Member Accounts	<u>99,937</u>	<u>144,269</u>	<u>236,718</u>
Sub Total	<u>5,331,095</u>	<u>5,327,325</u>	<u>5,677,946</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>427,580</u>	<u>405,188</u>	<u>404,506</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	281,856	420,663	410,033
Pension Fund Appropriation	<u>186,753</u>	<u>391,427</u>	<u>400,665</u>
Sub Total	<u>10,777,831</u>	<u>10,540,359</u>	<u>10,220,000</u>
Sub Total	<u>11,246,440</u>	<u>11,352,449</u>	<u>11,030,698</u>
<b>Military Service Fund:</b>			
Investment Income Credited to the Military Service Fund	10	15	25
Sub Total	10	15	25
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>1,269,004</u>	<u>1,139,944</u>	<u>1,189,620</u>
Sub Total	<u>1,269,004</u>	<u>1,139,944</u>	<u>1,189,620</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	66,695	128,804	74,884
Interest Not Refunded	202	1,986	5,031
Miscellaneous Income	0	12	0
Excess Investment Income (Loss)	<u>(1,633,140)</u>	<u>21,877,826</u>	<u>24,237,477</u>
Sub Total	<u>(1,566,243)</u>	<u>22,008,629</u>	<u>24,317,392</u>
<b>Total Receipts, Net</b>	<u>\$16,707,884</u>	<u>\$40,233,549</u>	<u>\$42,620,186</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$640,443	\$378,643	\$435,645
Transfers to Other Systems	<u>638,992</u>	<u>442,120</u>	<u>743,840</u>
Sub Total	<u>1,279,435</u>	<u>820,762</u>	<u>1,179,485</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,664,820	2,373,475	2,248,937
Option B Refunds	0	<u>21,105</u>	<u>96,248</u>
Sub Total	<u>2,664,820</u>	<u>2,394,581</u>	<u>2,345,185</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	11,380,872	10,634,737	10,052,672
Survivorship Payments	807,693	809,251	780,188
Ordinary Disability Payments	275,193	311,384	321,615
Accidental Disability Payments	1,987,619	1,972,160	2,082,332
Accidental Death Payments	806,058	748,822	715,818
Section 101 Benefits	62,756	52,326	40,755
3 (8) (c) Reimbursements to Other Systems	<u>472,843</u>	<u>568,214</u>	<u>565,025</u>
Sub Total	<u>15,793,035</u>	<u>15,096,893</u>	<u>14,558,405</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Salaries	195,335	188,182	184,107
Legal Expenses	27,367	25,729	15,716
Travel Expenses	3,580	5,645	4,740
Administrative Expenses	45,500	45,400	63,630
Education and Training	1,620	2,384	0
Furniture and Equipment	267	0	0
Management Fees	966,652	837,121	908,778
Service Contracts	14,428	21,774	0
Fiduciary Insurance	<u>14,254</u>	<u>13,709</u>	<u>12,649</u>
Sub Total	<u>1,269,004</u>	<u>1,139,944</u>	<u>1,189,620</u>
<b>Total Disbursements</b>	<u>\$21,006,293</u>	<u>\$19,452,180</u>	<u>\$19,272,694</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Cash	\$4,523	\$8,165	\$13,882
Pooled or Mutual Funds	<u>5,890,029</u>	<u>5,127,443</u>	<u>4,650,438</u>
<b>Total Investment Income</b>	<u>5,894,552</u>	<u>5,135,607</u>	<u>4,664,320</u>
<b>Plus:</b>			
Realized Gains	5,984,094	4,786,461	3,536,976
Unrealized Gains	<u>19,143,763</u>	<u>35,129,851</u>	<u>40,930,261</u>
Sub Total	<u>25,127,857</u>	<u>39,916,312</u>	<u>44,467,237</u>
<b>Less:</b>			
Realized Loss	(110,988)	(152,936)	(11,076,792)
Unrealized Loss	<u>(30,748,031)</u>	<u>(21,331,741)</u>	<u>(11,986,420)</u>
Sub Total	<u>(30,859,019)</u>	<u>(21,484,677)</u>	<u>(23,063,211)</u>
<b>Net Investment Income (Loss)</b>	<u>163,391</u>	<u>23,567,242</u>	<u>26,068,346</u>
<b>Income Required:</b>			
Annuity Savings Fund	99,937	144,269	236,718
Annuity Reserve Fund	427,580	405,188	404,506
Military Service Fund	10	15	25
Expense Fund	<u>1,269,004</u>	<u>1,139,944</u>	<u>1,189,620</u>
<b>Total Income Required</b>	<u>1,796,531</u>	<u>1,689,416</u>	<u>1,830,868</u>
Net Investment Income (Loss)	<u>163,391</u>	<u>23,567,242</u>	<u>26,068,346</u>
Less: Total Income Required	<u>1,796,531</u>	<u>1,689,416</u>	<u>1,830,868</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$1,633,140)</u>	<u>\$21,877,826</u>	<u>\$24,237,477</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$75,108	0.0%
PRIT Cash Fund	810,209	0.4%
PRIT Core Fund	<u>190,349,333</u>	<u>99.5%</u>
<b>Grand Total</b>	<u>\$191,234,650</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Framingham Retirement System was 0.19%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Framingham Retirement System averaged 1.16%. For the twenty-seven 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 Framingham Retirement System was 9.19%.

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 twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Framingham Retirement Board voted on April 29, 2002 to invest all of the system's assets with the PRIT fund as of May 31, 2002. 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 I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Framingham 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

## NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member’s total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member’s service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

#### Creditable Service

September 17, 2010.

A. Members of the Framingham Retirement System who earn less than \$5,000 per year and who established membership prior to July 1, 2009 shall continue to be members of the system. The regular compensation of such member shall be subject to retirement withholdings, but such member shall not accrue creditable service after July 1, 2009, except that, such member who on said date was serving in an elected or appointed term of office or employment shall continue to be credited with service until the expiration of said term of office or employment, but not thereafter.

B. Members of the Framingham Retirement System shall be credited with one year of service for each year of employment of not less than 20 hours per week, or yearly proportion thereof. If the member's hours of employment fall below 20 hours per week, the member shall be credited with one-half year of creditable service, or yearly proportion thereof.

C. Creditable service may be allowed for any period of approved leave of absence without regular compensation which is not in excess of one month, upon petition to the Board by the member. Any portion of any period of continuous leave of absence of any member without regular compensation which is in excess of one month shall not be creditable service.

#### II. CREDITABLE SERVICE:

This regulation shall apply to creditable service calculated for member buybacks, membership transfers to other Massachusetts retirement systems and retirement benefit calculations for members of the Framingham Retirement System who retire on or after the effective date of this regulation.

December 29, 1997

Full time service shall be based on the individual department's hourly requirement for full time service. Part-time service shall be based on actual hours worked that are less than the department's required full time hours, to be prorated only on the conditions listed below:

A Part-time employee shall be granted one year of creditable service for each calendar or school year worked and upon retirement the allowance shall be based on their average highest consecutive three-year salary.

A full time employee, who takes a part-time position in the last years, prior to retirement, shall have the part-time service prorated. A part-time employee who takes a full time position prior to retirement shall have the part-time service prorated and the retirement allowance based on their highest consecutive 36-month salary.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

A part-time employee who takes a full time position in the last three years prior to retirement shall have the part-time service prorated and the retirement allowance based on the average of their highest consecutive three-year salary. Part-time employees who were never employed on a full time basis shall have a retirement allowance calculated on the basis of one year of credit for each year worked and the retirement allowance based on the average of their highest consecutive three year salary. (NOTE: This rule is repeated twice in the Board's letter of October 23, 1997.)

Part-time employees who transfer their service to another municipality shall be given creditable service, prorated, based on actual service rendered. Part-time employees who take a refund and then take a position in another municipality, upon their request to repay the funds, shall be given creditable service, prorated, based on actual service rendered.

#### Veterans' Buy-Back:

September 4, 1997

All veterans, eligible under chapter 71 of the acts of 1996, shall have the following options on the purchase of their military time. Payment may be made in a lump sum or through payroll deductions for a period of up to five (5) years. Payment must be received in a lump sum prior to retirement or resignation. Veterans with a legitimate hardship in purchasing their military time through the above methods can request a hearing before the Retirement Board.

#### Buy-Backs:

December 16, 1996

A member must have worked a minimum of twenty (20) hours per week for a buyback or make up payment of non-membership service. Creditable service will be prorated as it bears against full time service.

#### Membership:

September 17, 2010

##### Membership Eligibility:

A. Employees of any member unit of the Framingham Retirement System who are regularly employed in a permanent position for a minimum of 20 hours per week and who earn a minimum of \$5,000 per year must become members of the System.

B. Employees of any member unit of the Framingham Retirement System who are provisional, seasonal, temporary or intermittent, and who are regularly employed in a position for a minimum of 20 hours per week for a period of six consecutive months, and who earn a minimum of \$5,000 per year, must become members of the system at the conclusion of the six-month period. Such members shall be allowed to purchase prior non-membership service.

C. Employees of any member unit of the Framingham Retirement System working fewer than 20 hours per week are ineligible for membership.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

D. Employees, elected and appointed officials of any member unit of the Framingham Retirement System earning less than \$5,000 per year are ineligible for membership.

September 9, 1993

That employees of the HUD grant "Secretaries Special Project-School Drop Out Prevention Activity Grant" be eligible for membership in the Framingham Retirement system if employed 20 hours per week and current employees shall continue their membership under this grant.

August 12, 1991

That seasonal employees will not be eligible for membership in the retirement system.

May 16, 1991

Membership That temporary full-time employees join the retirement system as of the date of their employment.

December 12, 1984

Effective April 1, 1981, all new employees who are employed a minimum of 20 hours per week, must become members of the Retirement System.

Regular Compensation:

January 16, 1996

That the stipend paid to members of the hazardous materials response team be considered regular compensation for retirement purposes.

August 16, 1995

That the annual stipend for superintendents shall be considered a payment in lieu of overtime compensation and therefore, not considered regular compensation for retirement purposes.

May 3, 1995

The stipends being paid on a monthly basis to the Parking Commissioner and the hearing officer shall be considered regular compensation for retirement purposes.

May 26, 1994

That the \$50 safe driver award for bus drivers who have been accident free for four years not be included as regular compensation for retirement purposes.

May 26, 1994

That the \$150 stipend awarded to assistant teachers and secretaries not be included as regular compensation for retirement purposes.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### September 29, 1993

The Hazardous Material Training Stipend, which is 2% of the base salary and is paid once a year in December, shall be considered regular compensation for retirement purposes effective July 1, 1992.

#### September 29, 1993

The EMT Pay and Training effective July 1, 1993, which was increased \$250 for an EMT FF in the top step and a payment of \$750 for all other EMT's be considered regular compensation for retirement purposes.

#### September 29, 1993

The Defibrillator Training pay of \$100, which is paid annually, be considered regular compensation for retirement purposes.

#### September 23, 1991

That training pay which is a percentage of base pay and paid as part of a weekly salary be considered regular compensation for retirement purposes.

#### March 19, 1991

That uniform allowance being paid to various departments not be considered regular compensation for retirement purposes as the board is of the opinion that these are reimbursements for expenses or necessary costs of employment.

#### November 23, 1987

Educational increments paid to certain library employees shall not be considered regular compensation for retirement purposes due to the fact that it is a bonus which is not paid to everyone within the department, but only those who obtain the credits while in the employ of the Town and who are not required to have the credits for their position.

#### February 28, 1986

Merit payments are not considered regular compensation for retirement purposes but considered a bonus as this payment is not continuing in nature but a single payment over and above the normal salary due for the position.

#### Miscellaneous:

#### December 29, 1997

Birth/Marriage/Death Records: That certified Birth certificates, marriage certificates and death certificates can be shown to the Retirement Board and a photo static copy will be made for the Retirement Office to be kept in the member's folder.

#### December 5, 1997

Disability Applications: All disability applicants shall be responsible for the following:  
Payment of all charges for obtaining the medical records

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 6, 1990

Record Retention: That no original record from an employee or retiree folder be permitted to leave the retirement office.

October 28, 1987

Membership/Federal Grant Employees: Those employed in a non-teaching position for a minimum of 20 hours per week under Chapter 188 shall become members of the Retirement System and that an amount equal to the future pension costs incurred because of the federal grant shall be forwarded to the Retirement System in accordance with the provisions of chapter 66I of the acts of 1983.

December 12, 1984

Expense Fund: To maintain \$10,000 in a specified bank and to issue a check each week for any available excess funds to be forwarded to the Massachusetts Municipal Depository Trust Company until such funds are required to meet expenses.

December 12, 1984

Expense Fund: To transfer any funds necessary to meet expenses as such funds are required, from the Massachusetts Municipal Depository Trust maintain \$10,000 in a specified bank and to issue a check each week for any available excess funds to be forwarded to the Massachusetts Municipal Depository Trust Company until such funds are required to meet expenses.

Advance Payments:

December 12, 1984

That the rules and regulations to implement the provisions of G.L. c. 32, § 99 shall be as follows:

- The implementation of section 99 shall be handled by the Framingham Retirement Board.
- That the advance payments shall be at the option of the retiree on an estimated basis
- That the advance payments shall not exceed 80% of the amount due.
- That the advance payments shall be paid by the Framingham Retirement system.
- That the advance payments shall be for superannuation retirements only.

Verification of Dependent Status:

December 12, 1984

Each September and January, verification is required from the educational institution that a dependent over the age of eighteen is currently enrolled as a full time student, verification must be furnished of the last date he/she attended classes.

Travel Regulations:

The Framingham 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/Framingham>.

## 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 Town Accountant 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 G.Howarth,Jr. Chairman

Appointed Member: Mary Ellen Kelley Term Expires: 6/30/2014

Elected Member: Paul F.Barbieri Term Expires: 12/17/2014

Elected Member: Peter J.Rovinelli Term Expires: 6/30/2013

Appointed Member: Wayne MacDonald Term Expires: 1/15/2015

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:	)	\$50,000,000 Fiduciary Bond
Ex-officio Member:	)	Travelers Casualty and Surety
Elected Members:	)	Company
Appointed Members:	)	\$1,000,000 Fidelity Bond MACRS
Staff Employees:	)	Master Policy

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$145,034,782
The actuarial liability for vested terminated members was	2,516,153
The actuarial liability for non-vested terminated members was	1,638,254
The actuarial liability for retired members was	160,506,363
The total actuarial liability was	\$309,695,552
System assets (Actuarial Value) as of that date were	208,293,697
The unfunded actuarial liability was	<u>\$101,401,855</u>
The ratio of system's assets to total actuarial liability was	67.3%
As of that date the total covered employee payroll was	\$51,901,796

The normal cost for employees on that date was 8.7% of payroll  
 The normal cost for the employer was 5.9% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Varies based on 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	\$208,293,697	\$309,695,552	\$101,401,855	67.3%	\$51,901,796	195.4%
1/1/2010	\$192,218,521	\$283,866,634	\$91,648,113	67.7%	\$53,311,255	171.9%
1/1/2008	\$197,874,938	\$262,770,472	\$64,895,534	75.3%	\$48,878,418	132.8%
1/1/2006	\$157,611,528	\$241,752,245	\$84,140,717	65.2%	\$45,438,514	185.2%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retirement in Past Years</b>										
Superannuation	23	20	17	27	36	24	31	12	35	49
Ordinary Disability	0	0	2	1	1	0	0	3	0	0
Accidental Disability	3	3	1	7	2	1	1	3	2	1
<b>Total Retirements</b>	26	23	20	35	39	25	32	18	37	50
Total Retirees, Beneficiaries and Survivors	810	810	797	798	799	780	780	773	789	807
Total Active Members	1,166	1,109	1,128	1,192	1,317	1,201	1,115	1,085	1,070	1,010
<b>Pension Payments</b>										
Superannuation	\$7,911,444	\$8,370,799	\$8,638,208	\$9,045,974	\$9,452,046	\$9,733,330	\$9,918,275	\$10,052,672	\$10,634,737	\$11,380,872
Survivor/Beneficiary Payments	509,148	521,416	543,813	566,203	582,375	628,351	731,050	780,188	809,251	807,693
Ordinary Disability	258,465	250,456	271,031	261,854	249,712	276,381	258,924	321,615	311,384	275,193
Accidental Disability	1,487,551	1,681,749	1,676,677	1,836,235	1,930,409	1,918,965	1,914,619	2,082,332	1,972,160	1,987,619
Other	975,061	972,612	1,030,485	1,134,167	1,110,872	1,156,041	1,183,135	1,321,598	1,369,361	1,341,657
<b>Total Payments for Year</b>	<u>\$11,141,669</u>	<u>\$11,797,032</u>	<u>\$12,160,214</u>	<u>\$12,844,433</u>	<u>\$13,325,414</u>	<u>\$13,713,068</u>	<u>\$14,006,003</u>	<u>\$14,558,405</u>	<u>\$15,096,893</u>	<u>\$15,793,035</u>







PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)