

# PERAC AUDIT REPORT



Gloucester  
Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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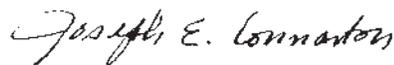
May 16, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Gloucester 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 the finding presented in this report.

In closing, I acknowledge the work of examiners James Ryan and Susan 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 FINDING(S) AND RECOMMENDATION(S)

## **Membership**

PERAC auditors sampled members' deductions to determine that the correct rates are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979.

- Several members were identified who should have been subject to the additional 2% deduction from income over \$30,000 per year, prorated on a per payroll basis, but were not coded correctly in the payroll system.
- The City payroll contains pay codes that are not descriptive enough to allow the Retirement System to determine whether they qualify as regular compensation.
- Certain pay types included in our sample were assigned as qualified for regular compensation with payroll deductions. Other compensation assigned to the same or similar pay type were observed to be excluded from regular compensation and resulted in no payroll deductions. Similarly and inconsistently, certain pay types included in our sample were assigned as qualified for the additional 2% contribution for compensation in excess of \$30,000 per year. Other compensation assigned to the same or similar pay type was observed to be excluded from the additional 2% contribution for compensation in excess \$30,000 per year.

## **Recommendation:**

The System must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions.

The Retirement System should be notified of and review all pay codes to determine their proper classification for qualifying as regular compensation. The compensation qualifying for retirement must be consistently applied to both regular contributions as well as the 2% additional contributions as assigned to all members of the Gloucester Retirement System. In addition, the Retirement System should continue to monitor payroll reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should continue to receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates.

## **Board Response:**

As it has in the past, the Board will continue to educate and instruct payroll administrators of the member units regarding the legal requirements of retirement contributions from compensation in excess of \$30,000. The Board has also educated payroll administrators regarding payroll codes and changes to the definition of regular compensation enacted in Chapter 21 of the Acts of 2009 and elsewhere, and will continue to do so with the goal of ensuring that retirement contributions are properly withheld from regular compensation.

## **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	\$176,458	\$217,266	\$434,449
PRIT Cash Fund	170,085	250,140	250,420
PRIT Core Fund	65,267,297	65,756,824	58,522,956
Accounts Receivable	7,721	16,153	11,912
Accounts Payable	(2,191)	(3,486)	(2,007)
<b>Total</b>	<u>\$65,619,370</u>	<u>\$66,236,896</u>	<u>\$59,217,729</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$23,244,061	\$22,729,868	\$21,516,555
Annuity Reserve Fund	8,771,473	8,396,326	8,532,808
Pension Fund	1,546,270	1,835,786	2,663,361
Military Service Fund	17,130	14,387	14,366
Expense Fund	0	0	0
Pension Reserve Fund	32,040,436	33,260,529	26,490,638
<b>Total</b>	<u>\$65,619,370</u>	<u>\$66,236,896</u>	<u>\$59,217,729</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)	\$22,313,718	\$6,808,695	\$3,026,366	\$14,295	\$0	\$19,404,246	\$51,567,321
Receipts	2,387,642	237,872	6,377,507	71	567,254	7,649,002	17,219,350
Interfund Transfers	(2,750,228)	2,633,759	679,079	0	0	(562,610)	0
Disbursements	(434,577)	(1,147,519)	(7,419,591)	0	(567,254)	0	(9,568,941)
Ending Balance (2009)	21,516,555	8,532,808	2,663,361	14,366	0	26,490,638	59,217,729
Receipts	2,344,054	247,188	6,587,001	43	563,833	7,097,900	16,840,018
Interfund Transfers	(766,262)	833,682	260,611	(22)	0	(328,009)	0
Disbursements	(364,480)	(1,217,351)	(7,675,188)	0	(563,833)	0	(9,820,851)
Ending Balance (2010)	22,729,868	8,396,326	1,835,786	14,387	0	33,260,529	66,236,896
Receipts	2,240,291	255,140	6,821,910	2,743	573,138	(320,764)	9,572,457
Interfund Transfers	(1,420,014)	1,430,519	888,825	0	0	(899,329)	0
Disbursements	(306,083)	(1,310,512)	(8,000,250)	0	(573,138)	0	(10,189,983)
Ending Balance (2011)	<u>\$23,244,061</u>	<u>\$8,771,473</u>	<u>\$1,546,270</u>	<u>\$17,130</u>	<u>\$0</u>	<u>\$32,040,436</u>	<u>\$65,619,370</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,092,665	\$2,033,417	\$2,074,732
Transfers from Other Systems	90,915	200,870	172,179
Member Make Up Payments and Re-deposits	58	19,340	36,900
Member Payments from Rollovers	2,134	23,865	2,424
Investment Income Credited to Member Accounts	<u>54,519</u>	<u>66,562</u>	<u>101,406</u>
Sub Total	<u>2,240,291</u>	<u>2,344,054</u>	<u>2,387,642</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>255,140</u>	<u>247,188</u>	<u>237,872</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	79,251	77,778	66,943
Pension Fund Appropriation	199,561	216,684	240,507
Settlement of Workers' Compensation Claims	6,543,097	6,292,539	6,067,057
	<u>0</u>	<u>0</u>	<u>3,000</u>
Sub Total	<u>6,821,910</u>	<u>6,587,001</u>	<u>6,377,507</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	2,714	0	0
Investment Income Credited to the Military Service Fund	<u>29</u>	<u>43</u>	<u>71</u>
Sub Total	<u>2,743</u>	<u>43</u>	<u>71</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>573,138</u>	<u>563,833</u>	<u>567,254</u>
Sub Total	<u>573,138</u>	<u>563,833</u>	<u>567,254</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	11,776	18,176	22,974
Pension Reserve Appropriation	0	857	0
Interest Not Refunded	4,695	4,225	1,012
Miscellaneous Income	174	1,159	157
Excess Investment Income (Loss)	<u>(337,409)</u>	<u>7,073,482</u>	<u>7,624,859</u>
Sub Total	<u>(320,764)</u>	<u>7,097,900</u>	<u>7,649,002</u>
<b>Total Receipts, Net</b>	<u>\$9,572,457</u>	<u>\$16,840,018</u>	<u>\$17,219,350</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$221,190	\$289,234	\$111,189
Transfers to Other Systems	<u>84,894</u>	<u>75,245</u>	<u>323,388</u>
Sub Total	<u>306,083</u>	<u>364,480</u>	<u>434,577</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,310,512	1,217,351	1,147,519
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,310,512</u>	<u>1,217,351</u>	<u>1,147,519</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	5,541,022	5,141,077	4,815,030
Survivorship Payments	351,007	372,834	396,382
Ordinary Disability Payments	205,939	211,106	206,044
Accidental Disability Payments	1,305,682	1,356,542	1,373,151
Accidental Death Payments	160,487	144,465	133,512
Section 101 Benefits	66,581	60,550	85,130
3 (8) (c) Reimbursements to Other Systems	181,617	177,457	169,834
State Reimbursable COLA's Paid	<u>187,916</u>	<u>211,158</u>	<u>240,507</u>
Sub Total	<u>8,000,250</u>	<u>7,675,188</u>	<u>7,419,591</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>			
Board Member Stipend	16,500	16,500	16,500
Salaries	129,895	130,878	127,453
Legal Expenses	9,437	9,719	8,336
Medical Expenses	225	0	0
Travel Expenses	1,964	1,064	1,741
Administrative Expenses	15,068	19,953	11,178
Professional Services	24,320	46,617	37,451
Education and Training	2,875	925	750
Furniture and Equipment	3,658	10,395	11,399
Management Fees	319,707	280,916	304,534
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	16,083	19,798	18,908
Service Contracts	25,527	19,387	21,744
Fiduciary Insurance	<u>7,881</u>	<u>7,682</u>	<u>7,259</u>
Sub Total	<u>573,138</u>	<u>563,833</u>	<u>567,254</u>
<b>Total Disbursements</b>	<b><u>\$10,189,983</u></b>	<b><u>\$9,820,851</u></b>	<b><u>\$9,568,941</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Equities	3,389	464	10,369
Pooled or Mutual Funds	1,953,686	1,719,933	1,551,169
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>1,957,075</u>	<u>1,720,397</u>	<u>1,561,538</u>
<b>Plus:</b>			
Realized Gains	2,008,389	1,610,582	1,152,147
Unrealized Gains	6,506,132	11,799,851	13,586,200
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>8,514,521</u>	<u>13,410,433</u>	<u>14,738,347</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(34,531)	(50,369)	(3,732,526)
Unrealized Loss	(9,891,648)	(7,129,353)	(4,035,896)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(9,926,179)</u>	<u>(7,179,722)</u>	<u>(7,768,422)</u>
<b>Net Investment Income (Loss)</b>	<u>545,417</u>	<u>7,951,108</u>	<u>8,531,463</u>
<b>Income Required:</b>			
Annuity Savings Fund	54,519	66,562	101,406
Annuity Reserve Fund	255,140	247,188	237,872
Military Service Fund	29	43	71
Expense Fund	<u>573,138</u>	<u>563,833</u>	<u>567,254</u>
<b>Total Income Required</b>	<u>882,826</u>	<u>877,626</u>	<u>906,605</u>
Net Investment Income (Loss)	<u>545,417</u>	<u>7,951,108</u>	<u>8,531,463</u>
Less: Total Income Required	<u>882,826</u>	<u>877,626</u>	<u>906,605</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$337,409)</u>	<u>\$7,073,482</u>	<u>\$7,624,859</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$176,458	0.3%
PRIT Cash Fund	170,085	0.3%
PRIT Core Fund	<u>65,267,297</u>	<u>99.5%</u>
<b>Grand Total</b>	<b><u>\$65,613,840</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2011, the rate of return for the investments of the Gloucester Retirement System was 0.42%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Gloucester Retirement System averaged 0.70%. 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 Gloucester Retirement System was 8.70%.

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

### January 22, 2008

The Gloucester Retirement System voted on January 22, 2008 to invest all of the system's assets,) with the PRIT fund as of February 1, 2008. 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 Gloucester 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 Gloucester Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### **Creditable Service:**

April 23, 1997

#### Veterans' Service Buy-Back

1.) An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the system the total amount required by chapter 71 of the acts of 1996, Veteran Buy-Back Law. This payment may be made "in one lump sum" or in installment payments. Installments may be spread evenly over a maximum period of five years with a minimum bi-weekly payment of \$20.00. There will be no interest charge on any outstanding balance.

2.) If a member has decided to purchase this additional creditable service and installments have already been paid, moneys are not refundable except upon the member's termination of service as provided in G.L. c. 32, § 10(4) and 11(1).

3.) The total veteran's buy back payment must be paid in full prior to the member's effective date of retirement. Creditable service would be prorated based upon any unpaid balance.

April 12, 1994

A full year of creditable service for each school year employed for regularly employed full time school cafeteria employees shall be granted, subject to review at the time of retirement.

Members requesting to make-up time (buy backs) toward creditable service must present to the board payroll records not W-2's to back up the period of time requested for creditable service.

Members who have worked under the CETA program may be allowed to make up this time toward creditable service.

December 14, 1984

An employee who averages 20 hours or more per week will be credited a proportionate share of a year's creditable service.

#### **Membership:**

January 2, 2001

In order to be eligible for membership in the Gloucester Contributory Retirement System, permanent part-time or permanent full-time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent fulltime employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts; filling in for vacation or sick time, do not count towards the twenty hour minimum requirement for membership.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

April 12, 1994

Permanent provisional employees are eligible to enter the system at once.

Substitute employees at no time shall be allowed membership in the system.

All temporary full time employees who are scheduled to work at least 20 hours per week for the calendar year are eligible for membership.

December 14, 1984

Effective 8-12-80

All part-time employees who work at least 20 hours per week within a calendar year must become members of the Retirement System.

Effective 8-12-80

Teacher's Aides or anybody doing work of a similar nature will not be admitted as members in the pension system until they have completed 6 months of employment.

#### **Miscellaneous:**

March 16, 2005

Elected Member

The Gloucester Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Gloucester Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board.

September 27, 2000

Forms

*Affidavit of Marital Status Upon Retirement and Member's Notification of Rights of the Gloucester Retirement Board Under M.G.L. Chapter 32*

September 8, 1993

Forms

*Approval of Spousal Acknowledgment to Retirement Option Blank as supplementary rule of the Retirement Board.*

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

May 24, 1993

Forms

*Approval of Disability Retiree Medical Questionnaire and Disability Retiree*

*Employment and Earnings Verification Form as supplementary rules of the Retirement Board.*

December 14, 1984

Public Records

All medical and financial records pertaining to an employee in service or retired are not public records but are records of the retirement board.

December 14, 1984

Signature Requirement

In order to insure the proper individual is receiving the benefits to which he/she is entitled, every retiree or beneficiary receiving a pension from the City of Gloucester is required to file his/her notarized signature with the Gloucester Retirement Board. Failure to return the specified card, properly filled out, within ninety days of postmark, will result in the suspension of benefits.

October 24, 2002

Travel Regulations

The Gloucester 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/Gloucester>.

## 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 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:	Kenny Costa	<u>Until a successor is appointed</u>
Appointed Member:	James A Duggan	Term Expires: 7/31/15
Elected Member:	Douglas A. MacArthur, Chairman	Term Expires: 7/31/2014
Elected Member:	Edward Hardy	Term Expires: 7/31/2014
Appointed Member:	Melissa Hobbs	Term Expires: 1/5/15

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

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

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

Treasurer - Custodian:	)	Coverage provided to a limit of \$50,000,000
Ex-officio Member:	)	under a master MACRS sponsored policy issued
Elected Members:	)	through a layered program with Travelers
Appointed Members:	)	National Union Fire, and Arch
Staff Employees:	)	Separate fidelity coverage pertaining to ERISA/Crime to a limit of \$1,000,000.00 issued through Travelers Casualty and Surety Company

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$63,238,034
The actuarial liability for inactive members was	986,190
The actuarial liability for retired members was	<u>87,827,430</u>
The total actuarial liability was	\$152,051,654
System assets as of that date were	<u>67,318,567</u>
The unfunded actuarial liability was	<u>\$84,733,087</u>
The ratio of system's assets to total actuarial liability was	44.3%
As of that date the total covered employee payroll was	\$23,142,683

The normal cost for employees on that date was 9.34% of payroll  
 The normal cost for the employer was 6.58% of payroll

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

Investment Return: 7.875%  
 Rate of Salary Increase: The salary scale assumption was 3.0% in 2012, 3.5% in 2013, 4.0% in 2014 and 4.5% in 2015 and later

#### 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	\$67,318,567	\$152,051,654	\$84,733,087	44.3%	\$23,142,683	366.1%
1/1/2010	\$65,139,502	\$138,859,148	\$73,719,646	46.9%	\$23,227,715	317.4%
1/1/2008	\$71,938,829	\$128,811,115	\$56,872,286	55.8%	\$22,787,184	249.6%
1/1/2006	\$58,165,000	\$117,403,000	\$59,238,000	49.5%	\$20,903,000	283.4%

## 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	15	18	14	11	10	17	17	35	11	16
Ordinary Disability	1	1	1	2	1	0	0	0	0	0
Accidental Disability	2	2	0	2	3	2	2	0	0	2
<b>Total Retirements</b>	18	21	15	15	14	19	19	35	11	18
Total Retirees, Beneficiaries and Survivors	402	404	407	409	407	405	413	433	427	429
Total Active Members	577	550	538	545	544	558	542	522	521	506
<b>Pension Payments</b>										
Superannuation	\$3,155,438	\$3,355,699	\$3,798,743	\$4,066,957	\$4,173,895	\$4,213,770	\$4,367,025	\$4,815,030	\$5,141,077	\$5,541,022
Survivor/Beneficiary Payments	300,619	287,963	304,367	292,914	299,621	348,927	380,544	396,382	372,834	351,007
Ordinary Disability	171,092	178,651	192,860	217,322	223,425	221,449	216,671	206,044	211,106	205,939
Accidental Disability	1,115,372	1,135,449	1,156,795	1,178,582	1,382,273	1,258,206	1,326,876	1,373,151	1,356,542	1,305,682
Other	425,353	405,720	417,764	411,177	465,462	477,722	456,812	628,983	593,630	596,601
<b>Total Payments for Year</b>	<u>\$5,167,874</u>	<u>\$5,363,482</u>	<u>\$5,870,529</u>	<u>\$6,166,952</u>	<u>\$6,544,676</u>	<u>\$6,520,074</u>	<u>\$6,747,928</u>	<u>\$7,419,591</u>	<u>\$7,675,188</u>	<u>\$8,000,250</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Gloucester Retirement Board leases approximately 1,380 square feet of space for its offices located at 127 Eastern Ave., Gloucester Ma.01931. They signed an initial 5-year lease term (\$11.00 per sq ft 2010, \$11.25 per sq ft in 2011, \$11.55 per sq ft in 2012, \$11.85 per sq ft in 2013 and \$12.25 per sq ft) which will expire December 31, 2014. The landlord is 127 Eastern Avenue Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2011:

<u>For the year ending:</u>	<u>Annual Rent</u>
2010	\$13,915.00
2011	\$15,525.00
2012	\$15,539.00
2013	\$16,353.00
2014	\$ 16,905.00
Total future minimum lease payments required	<u>\$78,237.00</u>



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