

PERAC AUDIT REPORT



Hingham

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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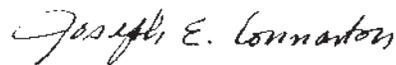
February 11, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Hingham 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 John J. Shea 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 FINDINGS AND RECOMMENDATIONS

I. Retiree Payroll: Tax Payment Discrepancy:

As of December 31, 2011, the Hingham Retirement Board had an outstanding receivable in the amount of \$302,706.36. This was the result of an overpayment of Federal Tax withheld from the retiree payroll distributed in October, 2011. The System Administrator electronically remitted \$439,912 instead of \$43,222. This was a clerical error. The year-to-date amount was referenced and transferred instead of the correct amount that represented the October deductions. The Warrant prepared and signed by the Board had the correct deduction listed for payment. The Warrant and the payment process were not coordinated or referenced. The system discovered the error during the monthly closing process. They applied the normal November and December withholdings against the outstanding amount. This recovery option normally requires prior permission from the Internal Revenue Service. The board received repayment in full from the IRS on March 12, 2012.

Recommendation: The application of electronic payment options does not compromise the normal controls evident over financial disbursements. Reference to a pre-approved Warrant must support each disbursement whether by issuing a check for payment or by initiating an electronic payment via the Internet. A more comprehensive process must be implemented that includes a comparison with the approved Warrant. The Town Treasurer, as custodian of Board funds, is responsible for all Board payments. The Treasurer in conjunction with an additional person should confirm all payments, especially electronic transfers.

Board Response:

The Retirement Board staff acknowledges the federal withholding tax reporting error made in October 2011. In order to prevent future errors, the Retirement Board staff will now take the following corrective actions:

- Submit and confirm with Treasurer and Town Accountant, a monthly spreadsheet reflecting Retiree Payroll Federal Tax Withholding and Member Federal Tax Withholding (if any) and,
- Hingham Town Treasurer or their authorized representative will submit payment via the Electronic Federal Tax Payment System (EFTPS) on behalf of the Hingham Retirement board.

2. Option C Retirees:

An inspection of the retiree files disclosed the system did not retain adequate documentation that confirmed the age and marital status of the beneficiaries qualified for benefits under the Option C election. This information is a basic element of the benefit calculation for retirees who elect this option. A factor related to mortality tables is used to apply to the calculation of a retiree's benefit in these cases. The accurate application of these factors is a crucial element in maintaining the integrity of the benefits paid by the system.

Recommendation: The choice of Option C beneficiary is limited to spouse, former spouse who has not remarried, child, parent, or sibling. The Board must confirm the eligibility of any spouse chosen as beneficiary by inspecting a marriage certificate. A copy of this record must be maintained in the file. The exact age of the Option C beneficiary is critical to the calculation of the retirement benefit. The Board must confirm the age of the beneficiary by inspecting a birth certificate or other substantiation of the exact date of birth. A copy of this record must be maintained in the file.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Retirement Board staff acknowledges that all members choosing retirement Option C should have a birth certificate for both member and spouse on file. A copy of the marriage certificate should also be maintained. A retirement application will not be processed by the Retirement Board staff unless these documents accompany the application or are already on file.

3. 2% Contribution

PERAC auditors sampled members' deduction rates to determine that correct percentages 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. It was observed that members receive separate checks for longevity and election pay. For the pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll department calculates the 2% exemption on \$30,000 annually based on each earnings payment rather than combining regular earnings.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay period basis. The payroll system should combine all earnings subject to retirement deductions for each member from all payroll sources. This would provide the proper basis for calculating the additional 2% deduction accurately and consistently.

Board Response:

The Town of Hingham pays longevity benefits by separate check. Since longevity is not paid in conjunction with regular pay therefore the 2% deduction is rarely withheld. In order to keep longevity payments separate from regular pay and to comply with G.L. C. 32, §22(1)(b) and PERAC Memo #43/1999, the Town of Hingham will withhold the following retirement deductions:

- 7% & 2% members will be assessed 9% withholding on longevity payments only
- 8% & 2% members will be assessed 10% withholding on longevity payments only
- 9% & 2% members will be assessed 11% withholding on longevity payments only

Members earning less than \$30,000 per year will not be subject to the new withholding rates on longevity payments. Combining the regular and incremental withholdings should assure PERAC that the Town of Hingham is in compliance.

FINAL DETERMINATION:

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

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2011	2010	2009
Net Assets Available For Benefits:			
Cash	\$213,992	\$307,496	\$343,033
Pooled Domestic Equity Funds	18,413,966	0	0
Pooled International Equity Funds	9,815,625	0	0
Pooled Domestic Fixed Income Funds	32,255,646	0	0
Pooled Alternative Investment Funds	17,004	0	0
Pooled Real Estate Funds	4,037,799	0	0
Pooled International Balanced Funds	3,106,798	0	0
Hedge Funds	3,746,253	0	0
PRIT Cash Fund	25	40	70
PRIT Core Fund	1,398,880	72,914,287	65,338,965
Accounts Receivable	421,126	41,487	42,721
Accounts Payable	(20,972)	(18,936)	(2,551)
Total	<u>\$73,406,142</u>	<u>\$73,244,374</u>	<u>\$65,722,237</u>
Fund Balances:			
Annuity Savings Fund	\$20,037,826	\$19,509,166	\$18,868,990
Annuity Reserve Fund	6,030,253	5,528,066	5,122,046
Pension Fund	0	85,707	281,733
Military Service Fund	14,482	14,453	18,915
Expense Fund	0	0	0
Pension Reserve Fund	47,323,581	48,106,982	41,430,553
Total	<u>\$73,406,142</u>	<u>\$73,244,374</u>	<u>\$65,722,237</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)	\$17,747,144	\$4,729,725	\$179,207	\$18,821	\$0	\$33,961,406	\$56,636,302
Receipts	2,411,431	144,777	3,268,714	94	581,290	9,147,982	15,554,288
Interfund Transfers	(1,023,851)	1,023,464	1,679,221	0	0	(1,678,834)	0
Disbursements	(265,734)	(775,920)	(4,845,409)	0	(581,290)	0	(6,468,353)
Ending Balance (2009)	18,868,990	5,122,046	281,733	18,915	0	41,430,553	65,722,237
Receipts	2,181,286	156,221	3,427,917	51	483,737	8,150,144	14,399,356
Interfund Transfers	(1,097,682)	1,102,195	1,473,715	(4,513)	0	(1,473,715)	0
Disbursements	(443,427)	(852,396)	(5,097,658)	0	(483,737)	0	(6,877,219)
Ending Balance (2010)	19,509,166	5,528,066	85,707	14,453	0	48,106,983	73,244,375
Receipts	2,245,917	167,941	4,043,815	29	355,069	445,671	7,258,442
Interfund Transfers	(1,264,241)	1,264,241	1,229,072	0	0	(1,229,072)	0
Disbursements	(453,016)	(929,995)	(5,358,595)	0	(355,069)	0	(7,096,675)
Ending Balance (2011)	<u>\$20,037,826</u>	<u>\$6,030,253</u>	<u>\$0</u>	<u>\$14,482</u>	<u>\$0</u>	<u>\$47,323,581</u>	<u>\$73,406,142</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	\$2,079,016	\$2,045,396	\$2,014,474
Transfers from Other Systems	58,164	40,497	241,656
Member Make Up Payments and Re-deposits	64,080	39,325	63,740
Member Payments from Rollovers	2,616	0	6,010
Investment Income Credited to Member Accounts	<u>42,040</u>	<u>56,068</u>	<u>85,552</u>
Sub Total	<u>2,245,917</u>	<u>2,181,286</u>	<u>2,411,431</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>167,941</u>	<u>156,221</u>	<u>144,777</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	136,168	141,255	122,675
Pension Fund Appropriation	<u>3,783,740</u>	<u>3,159,968</u>	<u>3,012,722</u>
Settlement of Workers' Compensation Claims	0	0	0
Sub Total	<u>4,043,815</u>	<u>3,427,917</u>	<u>3,268,714</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>29</u>	<u>51</u>	<u>94</u>
Sub Total	<u>29</u>	<u>51</u>	<u>94</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>355,069</u>	<u>483,737</u>	<u>581,290</u>
Sub Total	<u>355,069</u>	<u>483,737</u>	<u>581,290</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	75,889	5,183	67,313
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,141	603	2,806
Miscellaneous Income	0	(0)	(72)
Excess Investment Income	<u>366,640</u>	<u>8,144,359</u>	<u>9,077,935</u>
Sub Total	<u>445,671</u>	<u>8,150,144</u>	<u>9,147,982</u>
Total Receipts	<u>\$7,258,442</u>	<u>\$14,399,356</u>	<u>\$15,554,288</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	\$94,595	\$134,481	\$148,216
Transfers to Other Systems	<u>358,421</u>	<u>308,947</u>	<u>117,518</u>
Sub Total	<u>453,016</u>	<u>443,427</u>	<u>265,734</u>
Annuity Reserve Fund:			
Annuities Paid	929,995	852,396	768,476
Option B Refunds	<u>0</u>	<u>0</u>	<u>7,444</u>
Sub Total	<u>929,995</u>	<u>852,396</u>	<u>775,920</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,311,895	4,022,208	3,701,797
Survivorship Payments	190,898	164,206	161,052
Ordinary Disability Payments	64,764	63,372	64,697
Accidental Disability Payments	288,204	291,299	322,970
Accidental Death Payments	235,141	286,126	320,939
Section 101 Benefits	25,530	19,158	15,605
3 (8) (c) Reimbursements to Other Systems	121,170	126,624	124,187
State Reimbursable COLA's Paid	120,992	124,664	134,162
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,358,595</u>	<u>5,097,658</u>	<u>4,845,409</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	73,205	67,645	70,049
Legal Expenses	6,290	4,886	8,455
Medical Expenses	0	0	0
Travel Expenses	698	261	250
Administrative Expenses	6,967	6,649	5,104
Professional Services	24,169	27,191	31,559
Education and Training	708	1,489	250
Furniture and Equipment	0	1,993	0
Management Fees	157,181	314,848	416,275
Custodial Fees	0	0	0
Consultant Fees	38,462	46,709	0
Rent Expenses	0	0	0
Service Contracts	42,468	7,332	44,974
Fiduciary Insurance	<u>4,921</u>	<u>4,736</u>	<u>4,375</u>
Sub Total	<u>355,069</u>	<u>483,737</u>	<u>581,290</u>
Total Disbursements	<u>\$7,096,675</u>	<u>\$6,877,219</u>	<u>\$6,468,353</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	\$180	\$296	\$692
Pooled or Mutual Funds	2,363,783	1,930,804	1,822,325
Commission Recapture	0	0	0
Total Investment Income	<u>2,363,962</u>	<u>1,931,100</u>	<u>1,823,017</u>
Plus:			
Realized Gains	1,808,301	1,798,589	1,323,973
Unrealized Gains	7,881,188	13,206,302	15,390,982
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>9,689,489</u>	<u>15,004,892</u>	<u>16,714,955</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(506,671)	(57,994)	(4,156,227)
Unrealized Loss	(10,615,061)	(8,037,562)	(4,492,098)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(11,121,731)</u>	<u>(8,095,556)</u>	<u>(8,648,324)</u>
Net Investment Income (Loss)	<u>931,720</u>	<u>8,840,436</u>	<u>9,889,648</u>
Income Required:			
Annuity Savings Fund	42,040	56,068	85,552
Annuity Reserve Fund	167,941	156,221	144,777
Military Service Fund	29	51	94
Expense Fund	355,069	483,737	581,290
Total Income Required	<u>565,080</u>	<u>696,077</u>	<u>811,713</u>
Net Investment Income	<u>931,720</u>	<u>8,840,436</u>	<u>9,889,648</u>
Less: Total Income Required	<u>565,080</u>	<u>696,077</u>	<u>811,713</u>
Excess Income To The Pension Reserve Fund	<u>\$366,640</u>	<u>\$8,144,359</u>	<u>\$9,077,935</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$213,992	0.3%
Pooled Domestic Equity Funds	18,413,966	25.2%
Pooled International Equity Funds	9,815,625	13.4%
Pooled Domestic Fixed Income Funds	32,255,646	44.2%
Pooled Alternative Investment Funds	17,004	0.0%
Pooled Real Estate Funds	4,037,799	5.5%
Pooled International Balanced Funds	3,106,798	4.3%
Hedge Funds	3,746,253	5.1%
PRIT Cash Fund	25	0.0%
PRIT Core Fund	<u>1,398,880</u>	<u>1.9%</u>
Grand Total	<u>\$73,005,988</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Hingham Retirement System was 0.97%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Hingham Retirement System averaged 1.32%. 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 Hingham Retirement System was 9.21%.

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 Hingham Retirement System voted to invest all of the Systems assets with the PRIT Fund. In 2011, the system received permission from the PRIM Fund to diversify the portfolio by purchasing positions in various segments managed by the PRIM Board. As a result, the composition of the portfolio is classified in the investment category that most closely describes the general direction of the particular segment selected by the Board. The entire portfolio essentially remains under the management of the PRIM Board.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hingham 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 market 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 Hingham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

September 30, 2009

If a seasonal, temporary and/or intermittent employee later becomes a permanent member of the Hingham Contributory Retirement System, that employee would be allowed to purchase service for that period of employment pursuant to G.L. c.32, § 4(a) and any service granted as a result of such purchase would be included in calculating the allowance payable.

December 2, 2005

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Employees regularly scheduled to work twenty (20) or more hours per week shall join the Hingham Contributory retirement System.
- Employees working part-time and/or less than twenty (20) hours per week are not eligible to join the Hingham Contributory Retirement System.
- Any active or inactive member who becomes a temporary, intermittent, or seasonal employee shall continue to be a member of the Retirement System.
- Membership date will be based upon commencement of regularly scheduled twenty (20) hours or more of service to the member units.

Creditable Service:

December 2, 2005

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- All full-time/part-time employees having been regularly scheduled and worked twenty (20) or more hours per week will receive one month of Creditable service for each full calendar month in which the employee is receiving regular compensation for said service.
- In addition, Hingham School Department employees whose employment requires them to work only 10 months (September 1 - June 30), shall receive one month of creditable service for each full month the employee received regular compensation, with 10 months being the

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

equivalent of one year of creditable service. Said employees shall be granted one (1) full year of service credit if they return to that position the following September. They shall be granted credit only for the months worked if they do not return after summer break.

December 2, 2005

Creditable Service Buybacks/Make-Ups/Re-Deposits

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Creditable service may be purchased one of three ways:
 1. Lump sum payment.
 2. Three equal payments distributed over the three (3) consecutive months.
 3. Via payroll deductions paid over a period not to exceed five (5) years.
- Creditable Service buyback payments must commence within 30 days of the date of acceptance by the board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.
- Creditable service for the purposes of buybacks will be calculated based upon the following:
(per calendar year)

Less than one (1) month	No creditable service
One (1) month to eleven (11) months	Month for month
Twelve (12) months	One (1) year

One (1) year of credit for ten (10) months of service may only be granted for school employees whose work schedule is the academic school year.
- When purchasing prior part-time service, if wage and/or salary documentation cannot be obtained, a W-2 form shall be supplied by the applicant. If the applicant cannot supply a W-2 form, he/she can request a hearing before the retirement board.
- For the purpose of calculating buyback "months", the Hingham Contributory Retirement System will review the period of part-time service and will allow a month for each calendar month wherein an average of twenty (20) hours or more per week of service was provided to the member unit. No partial month creditable service will be granted.
- For the purpose of calculating buyback "months" for a member whose work schedule is the academic school year, the Hingham Contributory Retirement System will pro-rate full months of service using the number of full months of actual service as determined above,

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

divided by the ten (10) months of the academic school year. The quotient will then be multiplied by twelve (12) to determine the number of months of creditable service to be allowed under the buyback.

- Employees may buyback their three (3) month probation period in accordance with and subject to, applicable laws and regulations.
- Upon written request, and proper documentation of prior service, reserve or permanent-intermittent police officers who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Police Department as a permanent full-time employee, shall be credited as full-time service up to a maximum of five (5) years without repayment to the system in accordance with M.G.L c. 32 §4(2)(b).
- Upon written request, and proper documentation of prior service, permanent-intermittent or call firefighters who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Fire Department as a permanent full-time employee, may purchase as full-time service up to a maximum of five (5) years in accordance with M.G.L c. 32 §4(2)(b).

Military Service Buyback:

December 2, 2005

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Employees who qualify as a "veteran" under G.L. c. 32, §4(1)(h) can purchase up to four (4) years of active service in the Armed Forces of the United States which will be added to their creditable service as a member of the retirement system.
- Any member who is a veteran must, within one hundred and eighty (180) days of being notified by the Hingham Retirement of his/her eligibility to purchase past service rendered in the armed forces of the United States, make application to purchase said service with the Board. Upon making such application, the member may purchase his/her past military service by paying an amount equal to ten percent (10%) of the regular annual compensation of the member when the member first entered their retirement system subject to provisions of M.G.L. c. 32, for each year the member wishes to purchase, not to exceed a maximum of four (4) years of service.
- Military service may be purchased one of three ways:

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

1. Lump sum payment.
2. Three equal payments distributed over the three (3) consecutive months.
3. Via payroll deductions paid over a period not to exceed five (5) years.
 - Veterans with a legitimate hardship in purchasing their military time through the above methods can request a hearing before the Retirement Board.
 - Military service buyback payments must commence within 30 days of the date of acceptance by the board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.
 - If any member is laid-off or his/her position is eliminated due to budgetary constraints, the buyback period will be suspended, and in the event that the member is rehired or resumes employment with the Town of Hingham and is then again eligible to contribute to the System, he/she must resume the installment schedule in effect prior to the layoff or termination. If the member voluntarily leaves employment with the Town of Hingham or is terminated for cause, the buyback period will not be suspended, and the Board will grant creditable service on a pro-rated basis consistent with the total amount due on the buyback and the amount remitted to the Board prior to the termination of employment.
 - In the event that a member transfers to another retirement system prior to the completion of the installment plan, the Board will determine the amount of service purchased based on the payments received, and accept liability for said service consistent with the provisions of M.G.L. c. 32, §3(8)(c).

Election Rules:

June 13, 1994

Approval of election schedule to fill unexpired portion of elected member's term.

Full-time Service:

December 28, 1992

Full-time employment shall be defined as 35 hours per week for administrative, clerical and library employees (32 hours per week for certain library employees); 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department and four consecutive eight hour days followed by two consecutive days off duty for uniformed employees of the police department.

Part-time Service:

December 28, 1992

Part-time employees employed as of January 4, 1993 but hired prior to January 4, 1993 and currently working 20 or more hours per week may elect to join the Retirement System upon completion of any probationary period as of January 4, 1993. If such employee elects to join or to

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

continue membership in the defined contribution plan (PEBSCO) as of January 4, 1993 in lieu of joining the Retirement System, such employee shall not be eligible to join the Retirement System until after two years of membership in such plan. In addition, such employee may elect to buy back creditable service for all or part of the period January 1, 1992 to January 3, 1993 inclusive, if such employee by reason of date of hire is so eligible to buy back such service.

Membership:

December 28, 1992

A part-time employee hired on or after January 4, 1993 and working 20 or more hours per week may elect to join the Retirement System upon completion of any probationary period. If such employee elects to join the defined contribution plan (PEBSCO) at the time of hire in lieu of joining the Retirement System, such employee shall not be eligible to join the Retirement System until after two years of membership in such plan.

December 28, 1992

Part-time seasonal, part-time temporary and part-time intermittent employees shall not be eligible for membership in the Retirement System.

November 27, 1990

To require full-time employment as a criteria for membership in the Retirement System. Full-time employment is defined as 35 hours per week for administrative, clerical and library employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department. The work schedule for uniformed members of the police department shall be four consecutive 8 hour days on duty followed by 2 consecutive days off duty. School bus drivers who work a minimum of 25 hours per week when school is in session shall be included. Any employee who works full-time for eight or more consecutive months per year shall be eligible. If a full-time member in service of the Retirement System on October 1, 1990 becomes a part-time employee at any time after October 1, 1990, he or she may remain a member of the Retirement System.

The above stated policy applies to all employees hired by the town of Hingham on or after October 1, 1990.

Creditable Service:

December 18, 1984

All part-time employees shall be granted one year membership service credit for each three years of Part-time, provisional or temporary employment.

Part-time employees:

Board of Registrars, Sealers of Weights and Measures, Child Clinic Doctor, School Dentist, School Doctor, Harbormaster, Town Hall Custodian.

Call firefighters were omitted from this definition because their creditable service is more specifically addressed in G.L. c. 32, § 4(2)(b).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Membership:

December 18, 1984

Part-time employees who are employed for at least 34 consecutive weeks of not less than 24 hours each week, in every calendar year, must become members of the Retirement System.

Travel Regulations:

July 17, 2002

The Hingham 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/Hingham>).

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: Susan Nickerson

Appointed Member: Ted C. Alexiades Term Expires: 06/27/2013
Chairman

Elected Member: Eileen A. McCracken Term Expires: 07/01/2014

Elected Member: Jean Montgomery Term Expires: 07/30/2013

Appointed Member: Henry F. G. Wey III Term Expires: 06/22/2015

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

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

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

Treasurer - Custodian:)	Coverage under a master MACRS sponsored policy with
Ex-officio Member:)	Travelers Casualty and Surety Company of America
Elected Members:)	\$50,000,000 Fiduciary policy; Separate fidelity coverage
Appointed Members:)	Pertaining to ERISA/Crime to a limit of \$1,000,000
Staff Employee:)	Deductible \$10,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries, LLC. as of January 1, 2012.

The actuarial liability for active members was	\$56,436,441
The actuarial liability for retired and inactive members was	<u>58,330,545</u>
The total actuarial liability was	\$114,766,986
System assets as of that date were	<u>79,699,482</u>
The unfunded actuarial liability was	<u>\$35,067,504</u>
The ratio of system's assets to total actuarial liability was	69.4%
As of that date the total covered employee payroll was	\$23,273,757

The normal cost for employees on that date was 8.5% of payroll
 The normal cost for the employer was 4.9% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 4.00% per annum

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	\$79,699,482	\$114,766,986	\$35,067,504	69.4%	\$23,273,757	150.7%
1/1/2010	\$72,255,686	\$104,411,776	\$32,156,090	69.2%	\$22,266,750	144.4%
1/1/2009	\$62,299,932	\$99,303,172	\$37,003,240	62.7%	\$21,715,745	170.4%
1/1/2008	\$75,680,784	\$94,518,253	\$18,837,469	80.1%	\$19,856,230	94.9%
1/1/2007	\$64,778,166	\$88,204,142	\$23,425,976	73.4%	\$19,177,310	122.2%
1/1/2006	\$58,096,713	\$85,429,148	\$27,332,435	68.0%	\$18,005,014	151.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	5	13	12	12	10	13	3	14	11	20
Ordinary Disability	0	0	0	1	0	0	0	0	0	0
Accidental Disability	0	0	2	0	0	0	0	0	0	0
Total Retirements	5	13	14	13	10	13	3	14	11	20
Total Retirees, Beneficiaries and Survivors	237	247	251	241	247	269	262	264	272	282
Total Active Members	444	521	480	511	516	533	559	553	560	538
Pension Payments										
Superannuation	\$2,548,324	\$2,720,198	\$2,847,906	\$2,982,488	\$3,209,790	\$3,358,045	\$3,460,129	\$3,701,797	\$4,022,208	\$4,311,895
Survivor/Beneficiary Payments	150,715	139,763	171,633	149,169	166,514	185,977	153,985	161,052	164,206	190,898
Ordinary Disability	80,812	85,751	83,295	83,245	89,887	69,320	74,182	64,697	63,372	64,764
Accidental Disability	342,029	340,483	406,648	485,132	444,242	406,939	372,126	322,970	291,299	288,204
Other	492,108	169,409	245,133	201,789	497,273	482,816	605,750	594,893	556,573	502,833
Total Payments for Year	<u>\$3,613,988</u>	<u>\$3,455,604</u>	<u>\$3,754,615</u>	<u>\$3,901,823</u>	<u>\$4,407,706</u>	<u>\$4,503,096</u>	<u>\$4,666,171</u>	<u>\$4,845,409</u>	<u>\$5,097,658</u>	<u>\$5,358,595</u>

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