PERAC AUDIT REPORT

Saugus Contributory Retirement System

JAN. 1, 2012 - DEC. 31, 2014

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. McCARTHY

September 6, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Saugus Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. 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 Amy Chow, Patty Morrison, and George Nsia who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation:
An electrical inspector working for the Town and a teacher's aide at the school department each receive coaching stipends, which are currently excluded from retirement contributions. Separately, a part-time school custodian is receiving additional pay for her duties as a school crossing guard, which is also excluded from retirement contributions. While the coaching stipend and crossing guard pay by themselves would not meet the retirement system's membership criteria, the employees receiving the additional pay are already contributing to the retirement system through their primary positions. Further, the coaching stipend and crossing guard pay both meet the definition of regular compensation since they are considered a second position separate from the employees' current position and they have their own pre-determined base salary.

Recommendation: The Board should instruct payroll to begin withholding contributions on the coaching stipends and crossing guard pay for the members currently receiving them. The rate of deduction must be the same as the member's other compensation plus the additional 2%, if applicable.

Board Response:
The Saugus Retirement Board has scheduled a meeting with the Town Accountant to change the pay codes that are being used for coaching stipends and crossing guard pay for members to now be pensionable. Any other payments to members that are similar will also be changed. The correct percentage rate and any 2% if applicable will be deducted from these stipends/pays. Both payroll coordinators will be informed of the changes and given an updated pay code list.

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,		
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	$341,287	$132,293	$352,515
PRIT Cash Fund	150,047	100,034	100,045
PRIT Core Fund	80,653,954	75,388,946	65,051,929
Accounts Receivable	2,624,795	2,701,040	3,435,425
Accounts Payable	(3,906)	(2,459)	(19)
Total	$83,766,177	$78,319,855	$68,939,895
Fund Balances:			
Annuity Savings Fund	$17,085,608	$16,412,775	$15,906,532
Annuity Reserve Fund	4,748,490	4,843,347	4,514,808
Pension Fund	2,865,482	3,039,577	3,841,805
Military Service Fund	25,937	25,911	25,885
Expense Fund	0	0	0
Pension Reserve Fund	59,040,661	53,998,245	44,650,865
Total	$83,766,177	$78,319,855	$68,939,895

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 (2012)	$16,132,659	$3,925,118	$4,629,322	$20,766	$0	$37,143,464	$61,851,330
Receipts	1,407,168	123,341	4,920,350	5,119	432,703	7,497,530	14,386,210
Interfund Transfers	(1,324,132)	1,314,262	0	0	0	9,871	0
Disbursements	(309,163)	(847,913)	(5,707,866)	0	(432,703)	0	(7,297,645)
Ending Balance (2012)	15,906,532	4,514,808	3,841,805	25,885	0	44,650,865	68,939,895
Receipts	2,041,741	135,364	5,148,914	26	501,626	9,353,369	17,181,040
Interfund Transfers	(1,111,474)	1,117,464	0	0	0	(5,990)	0
Disbursements	(424,024)	(924,289)	(5,951,142)	0	(501,626)	0	(7,801,081)
Ending Balance (2013)	16,412,775	4,843,347	3,039,577	25,911	0	53,998,245	78,319,855
Receipts	1,906,890	140,359	5,541,037	26	562,527	5,440,504	13,591,343
Interfund Transfers	(766,388)	766,388	398,088	0	0	(398,088)	0
Disbursements	(467,670)	(1,001,603)	(6,113,221)	0	(562,527)	0	(8,145,020)
Ending Balance (2014)	$17,085,608	$4,748,490	$2,865,482	$25,937	$0	$59,040,661	$83,766,177

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	$1,590,970	$1,442,766	$1,373,995
Transfers from Other Systems	207,937	545,915	7,236
Member Make Up Payments and Re-deposits	73,003	20,332	6,941
Member Payments from Rollovers	19,000	12,066	2,617
Investment Income Credited to Member Accounts	15,980	20,662	16,379
Sub Total	1,906,890	2,041,741	1,407,168
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	140,359	135,364	123,341
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	180,152	162,653	122,403
Received from Commonwealth for COLA and Survivor Benefits	111,886	126,399	135,309
Pension Fund Appropriation	5,249,000	4,859,863	4,662,638
Sub Total	5,541,037	5,148,914	4,920,350
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	5,098
Investment Income Credited to the Military Service Fund	26	26	21
Sub Total	26	26	5,119
Expense Fund:			
Investment Income Credited to the Expense Fund	562,527	501,626	432,703
Pension Reserve Fund:			
Interest Not Refunded	0	3,061	524
Miscellaneous Income	0	0	7
Excess Investment Income	5,440,504	9,350,308	7,496,999
Sub Total	5,440,504	9,353,369	7,497,530
Total Receipts, Net	$13,591,343	$17,181,040	$14,386,210

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	$231,898	$115,997	$103,652
Transfers to Other Systems	235,772	308,027	205,510
Sub Total	467,670	424,024	309,163
Annuity Reserve Fund:			
Annuities Paid	1,001,603	924,289	847,913
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,240,034	4,050,831	3,781,444
Survivorship Payments	163,317	151,479	126,356
Ordinary Disability Payments	37,569	31,796	15,366
Accidental Disability Payments	989,755	1,051,271	1,081,229
Accidental Death Payments	388,947	409,450	450,382
Section 101 Benefits	39,100	21,639	19,804
3 (8) (c) Reimbursements to Other Systems	142,613	110,730	97,976
State Reimbursable COLA's Paid	111,886	123,946	135,309
Sub Total	6,113,221	5,951,142	5,707,866
Expense Fund:			
Board Member Stipend	3,670	2,670	3,059
Salaries	97,164	59,634	58,561
Legal Expenses	3,034	9,682	9,557
Travel Expenses	670	911	138
Administrative Expenses	8,395	6,940	2,039
Education and Training	910	790	2,388
Furniture and Equipment	2,073	650	0
Service Contracts	23,170	23,326	22,629
Fiduciary Insurance	3,794	3,616	3,611
Sub Total	562,527	501,626	432,703
Total Disbursements	$8,145,020	$7,801,081	$7,297,645

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Investment Income Received From:			
Cash	$228	$219	$329
Pooled or Mutual Funds	2,230,983	2,046,529	1,974,231
Total Investment Income	2,231,211	2,046,748	1,974,560
Plus:			
Realized Gains	3,535,198	3,283,228	1,592,693
Unrealized Gains	5,076,070	8,461,083	8,321,609
Sub Total	8,611,268	11,744,311	9,914,301
Less:			
Unrealized Loss	(4,683,083)	(3,783,074)	(3,819,419)
Net Investment Income	6,159,396	10,007,985	8,069,443
Income Required:			
Annuity Savings Fund	15,980	20,662	16,379
Annuity Reserve Fund	140,359	135,364	123,341
Military Service Fund	26	26	21
Expense Fund	562,527	501,626	432,703
Total Income Required	718,892	657,677	572,444
Net Investment Income	6,159,396	10,007,985	8,069,443
Less: Total Income Required	718,892	657,677	572,444
Excess Income (Loss) To The Pension Reserve Fund	$5,440,504	$9,350,308	$7,496,999

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2014	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$341,287	0.4%
PRIT Cash Fund	150,047	0.2%
PRIT Core Fund	80,653,954	99.4%
Grand Total	$81,145,288	100.0%

For the year ending December 31, 2014, the rate of return for the investments of the Saugus Retirement System was 8.17%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Saugus Retirement System averaged 10.11%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Saugus Retirement System was 9.44%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Saugus Retirement System is 100% invested in the PRIT fund. The system has not submitted any supplemental investment regulations to PERAC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Saugus 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 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

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

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

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

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

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

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

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

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

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

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

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $821.52 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $821.52 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership:
January 1, 2009:
Pursuant to the provisions of G.L. c. 32, § 3(2)(d) in all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service of an employee of the Town, no person holding a position requiring less than 25 hours of regular employment each week for less than 52 weeks of any calendar year shall be eligible for membership, and the retirement board shall have full jurisdiction to make such determination as to eligibility.

The Saugus Contributory Retirement System, permanent part-time or permanent full-time employees must be hired to work at least twenty-five (25) hours per week in a calendar year.

These rules are to become effective for all new employees of the Town of Saugus on and after the date of the approval of said local Rule by the Public Employee Retirement Administration Commission.

Creditable Service:
January 1, 2009
Members of the Saugus Retirement System who are employed on or after January 1, 2009 shall receive creditable service for service rendered consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity while an employee in the Town of Saugus, or in any member unit of the Saugus Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving compensation for said service.

- For a member in service who is employed in a part-time capacity throughout his/her entire career while an employee in the Town of Saugus, or in any member unit of the Saugus Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

- For a member in service who has been employed in both a full-time and part-time capacity while an employee in the Town of Saugus, or in any member unit of the Saugus Retirement System, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency of 35 hours for the position.

- In the case of School Department or Town employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

- Any member who purchases past part-time service rendered shall have said service prorated based on 35 hours being considered a full week of service.

- Any member of the Saugus Retirement System who has purchased and received creditable service prior to January 1, 2009 will not be affected by this regulation.

Supplemental Creditable Service Regulations for Saugus Public School Department Employees

Members of the Saugus Retirement System who are employed on or after January 1, 2009 in the Saugus Public Schools shall receive creditable service for service rendered consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

- For a member in service who has been employed in both a full-time and part-time capacity, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency of 35 hours for the position.

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

- In the case of School Department employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

- Notwithstanding the foregoing, the Board recognizes that certain employees, including but not limited to certain secretaries and custodians, are required to work the entire calendar

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

year, and in such a situation, said employees will receive one year's credit based on 12 months of employment, and partial year's credit-based one 12 month year.

- Creditable service for 10 month employees shall be calculated based on the equivalent of 1,202.5 hours per year, whereas creditable service for 12 month employees shall be based on the equivalent of 1,820 hours per year.

- Any member who purchases past part-time service rendered shall have said service prorated based on 35 hours being considered a full week of service.

- Any member of the Saugus Retirement System who has purchased and received creditable service prior to January 1, 2009 will not be affected by this regulation.

Travel Regulations:
October 23, 2002
The Saugus Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations are available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Saugus.

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:	Joanne Gayron		
Appointed Member:	Eugene F. Decareau	Term Expires:	Indefinite
Elected Member:	William E. Cross, III (Chairman)	Term Expires:	12/5/16
Elected Member:	Mark Gannon	Term Expires:	12/2/17
Appointed Member:	Doreen L. DiBari	Term Expires:	01/6/18

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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2015.

The actuarial liability for active members was	$51,034,182
The actuarial liability for vested terminated members was	735,883
The actuarial liability for non-vested terminated members was	389,400
The actuarial liability for retired members was	63,778,131
The total actuarial liability was	$115,937,596
System assets as of that date were	80,567,346
The unfunded actuarial liability was	$35,370,250
The ratio of system's assets to total actuarial liability was	69.5%
As of that date the total covered employee payroll was	$17,091,787

The normal cost for employees on that date was	8.8% of payroll
The normal cost for the employer was	6.8% of payroll

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

Investment Return:	7.60% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2015

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)
1/1/2015	$80,567,346	$115,937,596	$35,370,250	69.5%	$17,091,787	206.9%
1/1/2013	$67,378,206	$104,859,786	$37,481,580	64.3%	$14,545,631	257.7%
1/1/2011	$67,248,581	$99,151,437	$31,902,856	67.8%	$15,092,728	211.4%
1/1/2009	$55,581,339	$92,728,717	$37,147,378	59.9%	$14,176,916	262.0%
1/1/2007	$55,897,335	$84,272,310	$28,374,975	66.3%	$14,220,109	199.5%

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	8	7	6	3	11	8	5	16	16	12
Ordinary Disability	1	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	1	1	2	0	0	1	0
Total Retirements	9	7	6	4	12	10	5	16	17	12
Total Retirees, Beneficiaries and Survivors	305	301	293	289	287	284	276	277	274	276
Total Active Members	372	349	327	307	332	326	349	335	355	376
Pension Payments										
Superannuation	$2,902,970	$3,050,305	$3,162,575	$3,237,305	$3,427,825	$3,589,690	$3,594,116	$3,781,444	$4,050,831	$4,240,034
Survivor/Beneficiary Payments	152,190	154,747	162,062	164,534	158,747	131,175	104,203	126,356	151,479	163,317
Ordinary Disability	54,058	57,304	50,953	40,422	39,054	16,626	15,006	15,366	31,796	37,569
Accidental Disability	998,825	1,132,159	1,001,130	1,060,618	1,094,971	1,130,064	1,108,806	1,081,229	1,051,271	989,755
Other	582,884	597,163	599,158	616,926	620,428	618,444	737,073	703,471	665,764	682,546
Total Payments for Year	$4,690,927	$4,991,678	$4,975,878	$5,119,805	$5,341,024	$5,486,000	$5,559,205	$5,707,866	$5,951,142	$6,113,221

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