

PERAC AUDIT REPORT



Somerville



Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

May 9, 2014

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

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

In closing, I acknowledge the work of examiners James Ryan and 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. Retirement Board Meeting Records/Minutes:

As of January 10, 2014, which was the last day of the audit fieldwork, the Board had not produced records/minutes of the Retirement Board Meetings for the full 12 months of 2013. Executive Session records/minutes had not been produced for the last 6 months of 2013. As a result, the auditor could not complete the audit fieldwork review of the Monthly Board meeting minutes.

Section 23B of Chapter 39 of the General Laws is the “Open Meeting Law” applicable to retirement boards. The statute sets forth a number of requirements that are legally binding on all governmental bodies including retirement boards. Under the Open Meeting Law, the retirement board must maintain an accurate written record of each meeting which includes the date, time, place, members present or absent, and action taken at each meeting, including executive sessions. These items are a minimum and boards should ensure that the minutes reflect the tone and tenor of the meeting as well. The records of each meeting are a public record and are to be made available to the public. The Board is at risk that this section of the Open Meeting Law may be violated if and when a public records request of the meeting is made.

Recommendation: The Board must produce an official record of the monthly Board meetings that must be available to the auditor and the public for review. The Board should review and approve all contents of this record. The Board records/minutes should be produced in a more timely and consistent manner.

Board Response:

The Retirement Board recognizes the importance of maintaining an accurate written record of each Board Meeting under the Open Meeting Law. The Somerville Retirement Board office staff was shorthanded during 2013. During January 2013 the Executive Secretary retired, with short notice. The Head Clerk’s employment with the Retirement Board ended during 2012.

Based on the recommendations from the 1/1/2008 through 12/31/2009 PERAC audit report (issued 8/25/2011) and from the Abrahams Group independent organizational review report, the Retirement Board initiated a reorganization of the staff. The Abrahams Group review engagement was conducted after following the Request for Proposal (RFP) process. An Executive Director was hired and started during November 2013. The vacant Head Clerk position was not refilled.

Due to the shorthanded staff and reorganization changes during 2013 there was an unusual interruption in the consistent production of Board Meeting Minutes. All meeting minutes prior to 2013 were consistently produced. All meeting minutes from November 22, 2013 through current have been accurately and timely produced on a consistent basis.

The Board has started the process of formally producing any missing meeting minutes, beginning with January of 2013. Also, the Board has timely and consistently produced an accurate written record of each Board Meeting since the November 22, 2013 meeting.

2. Bank Reconciliations:

The bank account for Retiree Payroll has been reconciled on a regular basis using a consistent process for the audit period. However, the reconciliation only confirms the transaction activity recorded on the bank statement. We noted the general ledger cash account balance did not agree

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

with the cash balance used to reconcile with the bank balance noted on the reconciliation forms. The auditors noted variances between the adjusted bank balance and the general ledger of \$5,555.90 for the Retiree Payroll account. The variance being carried every month is over a year old. The staff cited transactions posted to the general ledger that were not apparent until inquiries related to these differences were made by the auditors. This bank reconciliation issue was also cited in the prior audit report and in the follow-up review.

Recommendation: Incorrect and unreliable bank reconciliations are an internal control weakness. These numbers must be accurate, reliable and communicated directly to the person completing the formal reconciliation. The Board must inspect and review the reconciliations on a monthly basis and all timing differences noted on these records must contain a detailed description.

Board Response:

Reconciling all bank accounts to the general ledger on a monthly basis is a critical internal control.

All Retirement Board bank account statements are reconciled to the general ledger by the City's Treasurer on a monthly basis. The City Treasurer, with the assistance of the Retirement Board System Accountant, specifically identified the reconciling items and placed them on the Retiree Payroll Account bank reconciliation.

All reconciling items on the Retiree Payroll account reconciliation have been addressed and cleared. This matter has been resolved.

On a monthly basis the Board will review each bank account reconciliation to ensure any reconciling items are identified in detail and cleared on a timely basis.

3. Calculations and Verifications of 3(8)(c) Files:

The auditors reviewed 3(8)(c) payments and billings to ensure that the amounts could be supported by a 3(8)(c) letter. Many 3(8)(c) letters are missing in the files of the Somerville Retirement Board. This makes it difficult to verify the related Board payment or billings. The Board did not have on file 29 of 79 (37%), 3(8)(c) letter records related to retirees over the years 2011-2013. As a result, the Board sent a public records request to PERAC for the purpose of retrieving the missing 3(8)(c) billing records. Our examination also indicated that a billing to one system had not been collected for two prior years totaling \$6,799.58.

It should be noted that the Board's Executive Director is creating a new procedure to ensure all 3(8)(c) payments and billings are supported by related 3(8)(c) letters.

Recommendation: A complete review and adjustment of the 3(8) (c) procedures should continue to be implemented to ensure that all payments or related billings are correct and properly supported by 3(8)(c) letters.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The finding is duly noted. The accurate and timely processing of 3(8) (c) annual invoices is very important. During December 2013 and January 2014 the internal controls and procedures for the annual 3(8) (c) process was completely revised. A copy of all PERAC 3(8) (c) letters have been obtained and centrally located. In order to ensure that accurate and documented invoices are processed, a master control summary spreadsheet, sorted by Retirement Board, based on all of the PERAC letters has been created. The master control spreadsheet also tracks when annual invoices have been mailed, payments received, invoices have been received and payments made. This item has been resolved.

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,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$2,075,595	\$1,200,023	\$6,399,973
Fixed Income Securities (at fair value)	27	22,532	4,994,645
Equities	94,642,662	85,357,634	84,400,367
Pooled Domestic Equity Funds	5,705,094	4,920,426	4,817,833
Pooled International Equity Funds	12,286,033	10,017,252	11,009,776
Pooled Domestic Fixed Income Funds	65,191,595	58,133,962	55,954,523
Pooled Real Estate Funds	15,516,383	14,248,730	12,993,699
Interest Due and Accrued	12	73	54,685
Accounts Receivable	5,916,401	5,902,246	14,769
Accounts Payable	(92,743)	(283,318)	(111,053)
Total	<u>\$201,241,059</u>	<u>\$179,519,560</u>	<u>\$180,529,215</u>
Fund Balances:			
Annuity Savings Fund	\$62,485,857	\$58,809,366	\$56,527,792
Annuity Reserve Fund	18,545,092	19,067,535	18,966,049
Pension Fund	0	327,924	4,754,608
Military Service Fund	60,730	60,669	44,413
Expense Fund	0	0	0
Pension Reserve Fund	120,149,380	101,254,066	100,236,353
Total	<u>\$201,241,059</u>	<u>\$179,519,560</u>	<u>\$180,529,215</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 (2010)	\$56,127,842	\$16,612,995	\$1,552,849	\$44,280	\$0	\$88,772,998	\$163,110,964
Receipts	5,696,053	501,762	12,863,266	133	1,142,150	20,090,451	40,293,814
Interfund Transfers	(4,383,439)	4,415,101	8,595,434	0	0	(8,627,096)	0
Disbursements	(912,664)	(2,563,809)	(18,256,941)	0	(1,142,150)	0	(22,875,563)
Ending Balance (2010)	56,527,792	18,966,049	4,754,608	44,413	0	100,236,353	180,529,215
Receipts	5,813,450	571,393	12,655,552	16,256	1,182,862	2,769,838	23,009,350
Interfund Transfers	(2,387,991)	2,379,479	1,760,636	0	0	(1,752,124)	0
Disbursements	(1,143,885)	(2,849,386)	(18,842,873)	0	(1,182,862)	0	(24,019,005)
Ending Balance (2011)	58,809,366	19,067,535	327,924	60,669	0	101,254,066	179,519,560
Receipts	6,377,175	567,040	12,833,291	61	1,160,914	25,731,101	46,669,583
Interfund Transfers	(1,969,104)	1,945,991	6,858,901	0	0	(6,835,788)	0
Disbursements	(731,580)	(3,035,473)	(20,020,117)	0	(1,160,914)	0	(24,948,083)
Ending Balance (2012)	\$62,485,857	\$18,545,092	\$0	\$60,730	\$0	\$120,149,380	\$201,241,059

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$5,963,380	\$5,268,891	\$5,171,410
Transfers from Other Systems	315,272	364,710	273,103
Member Make Up Payments and Re-deposits	25,237	35,669	19,945
Member Payments from Rollovers	3,482	1,439	2,975
Investment Income Credited to Member Accounts	<u>69,804</u>	<u>142,741</u>	<u>228,619</u>
Sub Total	<u>6,377,175</u>	<u>5,813,450</u>	<u>5,696,053</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>567,040</u>	<u>571,393</u>	<u>501,762</u>
Sub Total	<u>567,040</u>	<u>571,393</u>	<u>501,762</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	143,855	287,678	215,165
Pension Fund Appropriation	868,464	278,181	588,830
Settlement of Workers' Compensation Claims	11,820,973	12,034,768	12,051,425
Recovery of 91A Overearnings	0	0	6,000
	<u>0</u>	<u>54,925</u>	<u>1,847</u>
Sub Total	<u>12,833,291</u>	<u>12,655,552</u>	<u>12,863,266</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	16,158	0
Investment Income Credited to the Military Service Fund	<u>61</u>	<u>98</u>	<u>133</u>
Sub Total	<u>61</u>	<u>16,256</u>	<u>133</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,160,914</u>	<u>1,182,862</u>	<u>1,142,150</u>
Sub Total	<u>1,160,914</u>	<u>1,182,862</u>	<u>1,142,150</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	105,169	128,631	115,015
Interest Not Refunded	583	2,361	4,697
Miscellaneous Income	51,741	233	192
Excess Investment Income	<u>25,573,609</u>	<u>2,638,613</u>	<u>19,970,548</u>
Sub Total	<u>25,731,101</u>	<u>2,769,838</u>	<u>20,090,451</u>
Total Receipts, Net	<u>\$46,669,583</u>	<u>\$23,009,350</u>	<u>\$40,293,814</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$425,149	\$702,402	\$570,455
Transfers to Other Systems	<u>306,431</u>	<u>441,483</u>	<u>342,209</u>
Sub Total	<u>731,580</u>	<u>1,143,885</u>	<u>912,664</u>
Annuity Reserve Fund:			
Annuities Paid	3,035,473	2,847,858	2,563,809
Option B Refunds	<u>0</u>	<u>1,528</u>	<u>0</u>
Sub Total	<u>3,035,473</u>	<u>2,849,386</u>	<u>2,563,809</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	13,291,399	12,676,418	11,891,216
Survivorship Payments	565,421	584,028	569,163
Ordinary Disability Payments	98,170	98,170	98,170
Accidental Disability Payments	3,527,530	3,435,345	3,254,997
Accidental Death Payments	1,119,809	1,165,792	1,249,394
Section 101 Benefits	26,243	26,892	32,376
3 (8) (c) Reimbursements to Other Systems	900,286	318,362	570,996
State Reimbursable COLA's Paid	<u>491,259</u>	<u>537,865</u>	<u>590,630</u>
Sub Total	<u>20,020,117</u>	<u>18,842,873</u>	<u>18,256,941</u>
Expense Fund:			
Board Member Stipend	18,000	18,000	18,000
Salaries	209,915	234,286	225,744
Legal Expenses	562	0	315
Medical Expenses	0	94	81
Travel Expenses	1,884	1,155	4,995
Administrative Expenses	2,337	13,580	18,769
Professional Services	22,666	35,740	30,873
Education and Training	1,480	1,165	2,020
Furniture and Equipment	292	4,242	0
Management Fees	861,221	818,121	789,799
Custodial Fees	34,456	48,377	43,451
Service Contracts	8,016	8,016	8,017
Fiduciary Insurance	<u>85</u>	<u>85</u>	<u>85</u>
Sub Total	<u>1,160,914</u>	<u>1,182,862</u>	<u>1,142,150</u>
Total Disbursements	<u>\$24,948,083</u>	<u>\$24,019,005</u>	<u>\$22,875,563</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Investment Income Received From:			
Cash	\$13,739	\$21,330	\$19,415
Fixed Income	1,895	116,201	360,023
Equities	1,238,774	1,148,431	1,003,730
Pooled or Mutual Funds	<u>4,284,401</u>	<u>4,712,140</u>	<u>4,327,022</u>
Total Investment Income	<u>5,538,808</u>	<u>5,998,101</u>	<u>5,710,190</u>
Plus:			
Realized Gains	2,868,033	1,185,253	1,650,491
Unrealized Gains	21,747,580	11,262,985	21,785,612
Interest Due and Accrued - Current Year	<u>12</u>	<u>73</u>	<u>54,685</u>
Sub Total	<u>24,615,626</u>	<u>12,448,311</u>	<u>23,490,788</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(1,303)	(10,652)
Realized Loss	(392,561)	(5,696,895)	(4,162,066)
Unrealized Loss	(2,390,373)	(8,157,824)	(3,100,694)
Interest Due and Accrued - Prior Year	<u>(73)</u>	<u>(54,685)</u>	<u>(84,355)</u>
Sub Total	<u>(2,783,007)</u>	<u>(13,910,706)</u>	<u>(7,357,766)</u>
Net Investment Income	<u>27,371,427</u>	<u>4,535,706</u>	<u>21,843,211</u>
Income Required:			
Annuity Savings Fund	69,804	142,741	228,619
Annuity Reserve Fund	567,040	571,393	501,762
Military Service Fund	61	98	133
Expense Fund	<u>1,160,914</u>	<u>1,182,862</u>	<u>1,142,150</u>
Total Income Required	<u>1,797,818</u>	<u>1,897,093</u>	<u>1,872,664</u>
Net Investment Income	<u>27,371,427</u>	<u>4,535,706</u>	<u>21,843,211</u>
Less: Total Income Required	<u>1,797,818</u>	<u>1,897,093</u>	<u>1,872,664</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$25,573,609</u>	<u>\$2,638,613</u>	<u>\$19,970,548</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,075,595	1.1%
Fixed Income Securities (at fair value)	27	0.0%
Equities	94,642,662	48.4%
Pooled Domestic Equity Funds	5,705,094	2.9%
Pooled International Equity Funds	12,286,033	6.3%
Pooled Domestic Fixed Income Funds	65,191,595	33.4%
Pooled Real Estate Funds	<u>15,516,383</u>	<u>7.9%</u>
Grand Total	<u>\$195,417,389</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Somerville Retirement System was 15.46%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Somerville Retirement System averaged 4.04%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Somerville Retirement System was 8.93%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Somerville Retirement System has not submitted any supplementary investment regulations, to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Somerville Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

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

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

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

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

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board is primarily responsible for the implementation and performance of their investment strategy and they continue to monitor their own progress toward full funding of the system.

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

Creditable Service

May 19, 1998

1). That persons employed by the Election Department for working on the "census" may not pay a makeup for this time.

2). That draftsman (interns) hired by the Department of Public Works on a temporary basis will not join the Somerville Retirement System.

Monies Paid

August 16, 1995

Hazardous Duty Material monies paid to Somerville Fire Department employees shall be considered regular compensation.

August 19, 1994

All members of the Somerville Retirement System whether they be full-time or part-time shall be granted 12 months creditable service for each full year of membership.

Membership

November 29, 1994

To allow full-time, including provisional and temporary, employees to join the Somerville Retirement System immediately upon employment.

March 28, 1988

Persons who were employed by the City of Somerville prior to January 1, 1984 and are being paid out of Federal Funds will become members of the Somerville Retirement System at an annual contribution rate of 7% due to the fact that they had been denied membership prior to that date.

Classification

April 24, 1985

To classify licensed electricians employed by the Somerville Housing Authority in Group 2 as of March 14, 1985.

Rules & Regulations

December 26, 1984

Regularly employed part-time employees working a minimum of twenty (20) hours per week must join the retirement system upon first date of employment;

NOTES TO FINANCIAL STATEMENTS (Continued)

Provisional or temporary part-time employees working a minimum of twenty (20) hours per week must join the retirement system after working for six (6) consecutive months;

No employees may join the retirement system unless they work a minimum of twenty (20) hours per week;

All non-elected board members must join the retirement system upon the first date of employment;

Election department employees paid by name for census are not eligible for membership in the retirement system;

All new employees shall be examined by a physician and a written report shall be filed in the retirement system prior to their acceptance in the retirement system;

Board members shall receive one (1) year of service for each year of service;

Part-time employees who work at least twenty (20) hours per week shall receive one (1) year of service for each year of service;

Seasonal part-time employees who work at least twenty hours per week for seven (7) months or for the full season whichever is larger shall receive one (1) year of service of each year of service;

The following formula shall be used for all hourly persons working for less than twenty (20) hours per week and for those seasonal employees who do not work for at least seven (7) months or the full season whichever is longer:

- Number of hours worked per year divided by twenty (20)
- Divided by the normal working period of the position
- Multiplied by 12 months = creditable service granted. (AMENDED November 29, 1994).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2011.

The actuarial liability for active members was	\$131,484,314
The actuarial liability for retired and inactive members was	<u>180,169,931</u>
The total actuarial liability was	\$311,654,245
System assets as of that date were	<u>188,324,959</u>
The unfunded actuarial liability was	<u><u>\$123,329,286</u></u>
The ratio of system's assets to total actuarial liability was	60.4%
As of that date the total covered employee payroll was	\$56,709,233

The normal cost for employees on that date was 8.5% of payroll
 The normal cost for the employer was (includes administrative expenses) 4.3% of payroll

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

Investment Return: 8.25% per annum
 Rate of Salary Increase: 3.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2011

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)
1/1/2011	\$188,324,959	\$311,654,245	\$123,329,286	60.4%	\$56,709,233	217.5%
1/1/2008	\$183,769,256	\$280,399,899	\$96,630,643	65.5%	\$54,546,918	177.2%
1/1/2004	\$145,850,905	\$246,797,910	\$100,947,005	59.1%	\$43,875,838	230.1%
1/1/2001	\$134,378,449	\$204,557,523	\$70,179,074	65.7%	\$44,779,084	156.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	53	13	9	9	20	22	22	26	23	45
Ordinary Disability	1	0	0	0	0	0	0	0	0	0
Accidental Disability	4	8	5	2	2	9	3	6	3	3
Total Retirements	58	21	14	11	22	31	25	32	26	48
 Total Retirees, Beneficiaries and Survivors	995	985	949	908	926	922	920	972	939	915
 Total Active Members	1,068	1,107	1,129	1,128	1,156	1,207	1,166	1,154	1,134	1,143
 Pension Payments										
Superannuation	\$8,082,387	\$8,618,967	\$8,568,783	\$8,692,410	\$8,894,800	\$11,677,456	\$11,465,761	\$11,891,216	\$12,676,418	\$13,291,399
Survivor/Beneficiary Payments	443,318	510,919	506,824	550,109	588,712	602,779	581,401	569,163	584,028	565,421
Ordinary Disability	116,944	126,493	109,049	102,610	117,266	109,726	102,320	98,170	98,170	98,170
Accidental Disability	2,443,731	2,539,200	2,676,037	2,968,452	2,675,200	2,731,715	2,962,429	3,254,997	3,435,345	3,527,530
Other	3,375,237	4,150,195	4,000,050	4,188,442	4,460,118	2,155,555	2,654,183	2,443,395	2,048,912	2,537,597
Total Payments for Year	<u>\$14,461,617</u>	<u>\$15,945,774</u>	<u>\$15,860,743</u>	<u>\$16,502,023</u>	<u>\$16,736,096</u>	<u>\$17,277,231</u>	<u>\$17,766,094</u>	<u>\$18,256,941</u>	<u>\$18,842,873</u>	<u>\$20,020,117</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac