

# PERAC AUDIT REPORT



Swampscott  
Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011





# TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances .....	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income .....	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations .....	9
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions .....	11
Note 2 - Significant Accounting Policies .....	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System .....	25
Note 5 - Actuarial Valuation and Assumptions.....	26
Note 6 - Membership Exhibit.....	27



# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY | GREGORY R. MENNIS

JOSEPH E. CONNARTON, *Executive Director*

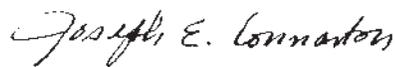
December 14, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Swampscott 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 examiner 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

## **1. Appropriations:**

A review of the appropriations showed that the Swampscott Housing Authority did not pay its required annual appropriation of \$43,002.00 for fiscal 2010. It was also noted that this payment has not been received as of July 10, 2012. The Board understands that the issue with the Housing Authority has been tenuous and the Retirement Board Attorney has been involved in obtaining the Appropriation money in a timely manner. The Board also understands that errors made by the prior Retirement Administrator caused this delinquency.

**Recommendation:** The Retirement Board should contact the Housing Authority and bill them for the 2010 Appropriation and continue to review the receivable until funds are collected on a timely basis. The Board is obligated to collect the full amount of the assigned appropriations from the Housing Authority. Appropriations shall be paid from any available funds in the treasury of the governmental unit obligated by law to support the system and charged against the next regular appropriation or assessment. If the actual payment does not conform to the schedule calculated by the PERAC Actuary, the Board must notify the PERAC Actuary, who will revise the appropriation to reflect interest at the rate assumed in the most recent actuarial valuation, which is currently 8%. It should be noted, however, that the actual cost of late payments is that of investment income foregone by the System. Failure to satisfy its obligations to the System can result in legal action for recovery by contract as noted in G.L. c. 32, § 22 (7)(d).

### **Board Response:**

The Board has sent out two requests for payment to be made to Swampscott Retirement Board. I will inform PERAC when this is paid.

## **2. Retiree Records:**

The auditor sampled retirees' files to determine if the superannuation benefit was correctly calculated and that the payroll matches the approved monthly allowance. An inspection of retiree records determined that Marriage Certificates and Birth Certificates were not on file in some cases. These documents are required to be produced by the retiree and verified by the Retirement Board staff during the final calculation of the Swampscott retiree's benefit.

**Recommendation:** The exact age of the Option C beneficiary is critical to the calculation of the retirement benefit. The Board must confirm the actual age of the beneficiary by inspecting a birth certificate or other substantiation of the date of birth. A copy of this record should be maintained in the file. Marriage Certificates are another key component of the final official documents needed to confirm the retiree's benefit calculation. It was noted the Administrator did contact the retirees in question during the course of the audit and the missing documents were provided.

### **Board Response:**

I have received all marriage and birth certificates that were missing. I will request them, if needed, when someone retires.

## **FINAL DETERMINATION:**

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

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2011	2010	2009
<b>Net Assets Available For Benefits:</b>			
Cash	\$520,325	\$1,284,306	\$197,817
Short Term Investments	239,509	192,062	318,431
Equities	1,097,619	0	4,277,930
Pooled Domestic Equity Funds	3,604,615	12,819,088	7,416,177
Pooled International Equity Funds	0	6,360,727	5,938,578
Pooled Domestic Fixed Income Funds	0	5,664,371	5,619,190
Pooled Alternative Investment Funds	837,195	766,528	685,229
Pooled Real Estate Funds	1,102,040	2,013,014	1,810,303
Hedge Funds	0	1,579,237	1,485,802
PRIT Cash Fund	0	0	0
PRIT Core Fund	22,335,474	0	0
Interest Due and Accrued	13	18	20
Accounts Receivable	860	860	22,608
Accounts Payable	0	0	(95,928)
<b>Total</b>	<u>\$29,737,651</u>	<u>\$30,680,210</u>	<u>\$27,676,157</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$11,304,217	\$10,553,898	\$9,778,995
Annuity Reserve Fund	2,825,352	3,252,859	3,359,541
Pension Fund	3,338,840	3,455,065	0
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	12,269,242	13,418,388	14,537,620
<b>Total</b>	<u>\$29,737,651</u>	<u>\$30,680,210</u>	<u>\$27,676,157</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)	\$9,178,662	\$3,489,018	(\$3,293,733)	\$322	\$0	\$15,797,133	\$25,171,402
Receipts	1,082,154	98,368	3,525,660	0	375,133	2,682,016	7,763,331
Interfund Transfers	(389,069)	389,233	1,612,310	(322)		(1,612,152)	(0)
Disbursements	(92,752)	(617,077)	(4,173,613)	0	(375,133)	0	(5,258,576)
Ending Balance (2009)	9,778,995	3,359,541	0	0	0	14,537,620	27,676,156
Receipts	1,259,691	95,864	3,696,884	0	359,364	2,648,629	8,060,433
Interfund Transfers	(373,967)	368,944	3,772,884			(3,767,861)	0
Disbursements	(110,821)	(571,491)	(4,014,703)	0	(359,364)	0	(5,056,379)
Ending Balance (2010)	10,553,898	3,252,859	3,455,065	0	0	13,418,388	30,680,210
Receipts	1,337,941	87,121	4,006,513	0	401,403	(1,160,375)	4,672,604
Interfund Transfers	(72,434)	63,059	(1,853)			11,229	0
Disbursements	(515,188)	(577,687)	(4,120,885)	0	(401,403)	0	(5,615,164)
Ending Balance (2011)	<u>\$11,304,217</u>	<u>\$2,825,352</u>	<u>\$3,338,840</u>	<u>\$0</u>	<u>\$0</u>	<u>\$12,269,242</u>	<u>\$29,737,651</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,178,349	\$1,021,721	\$984,143
Transfers from Other Systems	111,021	189,573	26,755
Member Make Up Payments and Re-deposits	17,842	3,215	27,026
Member Payments from Rollovers	0	16,415	0
Investment Income Credited to Member Accounts	<u>30,729</u>	<u>28,766</u>	<u>44,230</u>
Sub Total	<u>1,337,941</u>	<u>1,259,691</u>	<u>1,082,154</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>87,121</u>	<u>95,864</u>	<u>98,368</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	143,813	22,115	19,563
Pension Fund Appropriation	<u>3,780,070</u>	<u>3,548,881</u>	<u>3,372,928</u>
Sub Total	<u>4,006,513</u>	<u>3,696,884</u>	<u>3,525,660</u>
<b>Military Service Fund:</b>			
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>401,403</u>	<u>359,364</u>	<u>375,133</u>
Sub Total	<u>401,403</u>	<u>359,364</u>	<u>375,133</u>
<b>Pension Reserve Fund:</b>			
Interest Not Refunded	0	177	2,984
Miscellaneous Income	6	3,538	591
Excess Investment Income (Loss)	<u>(1,160,381)</u>	<u>2,644,914</u>	<u>2,678,440</u>
Sub Total	<u>(1,160,375)</u>	<u>2,648,629</u>	<u>2,682,016</u>
<b>Total Receipts, (Net)</b>	<u>\$4,672,604</u>	<u>\$8,060,433</u>	<u>\$7,763,331</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$262,405	\$76,210	\$73,148
Transfers to Other Systems	<u>252,783</u>	<u>34,611</u>	<u>19,605</u>
Sub Total	<u>515,188</u>	<u>110,821</u>	<u>92,752</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	577,687	571,491	544,800
Option B Refunds	0	0	<u>72,276</u>
Sub Total	<u>577,687</u>	<u>571,491</u>	<u>617,077</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	2,840,973	2,832,245	2,743,274
Survivorship Payments	113,847	118,865	118,241
Ordinary Disability Payments	17,888	17,513	17,153
Accidental Disability Payments	752,966	748,594	817,219
Accidental Death Payments	136,245	134,034	165,204
Section 101 Benefits	34,079	18,199	16,322
3 (8) (c) Reimbursements to Other Systems	189,158	109,208	260,669
State Reimbursable COLA's Paid	31,775	30,504	30,788
Chapter 389 Beneficiary Increase Paid	<u>3,954</u>	<u>5,543</u>	<u>4,743</u>
Sub Total	<u>4,120,885</u>	<u>4,014,703</u>	<u>4,173,613</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	0	0	0
Salaries	89,017	104,877	89,962
Legal Expenses	10,087	9,420	7,946
Medical Expenses	0	0	0
Travel Expenses	3,380	452	1,362
Administrative Expenses	15,159	24,222	10,546
Professional Services	11,416	6,620	0
Education and Training	1,350	3,571	0
Furniture and Equipment	765	0	1,261
Management Fees	165,739	140,474	147,148
Custodial Fees	35,000	21,461	31,768
Consultant Fees	40,000	40,000	36,250
Rent Expenses	0	0	18,244
Service Contracts	23,127	1,797	22,916
Fiduciary Insurance	<u>6,364</u>	<u>6,472</u>	<u>7,729</u>
Sub Total	<u>401,403</u>	<u>359,364</u>	<u>375,133</u>
<b>Total Disbursements</b>	<u><b>\$5,615,164</b></u>	<u><b>\$5,056,379</b></u>	<u><b>\$5,258,576</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Cash	\$1,514	\$3,421	\$3,096
Equities	65,773	47,460	79,963
Pooled or Mutual Funds	<u>320,379</u>	<u>151,848</u>	<u>179,711</u>
<b>Total Investment Income</b>	<u>387,666</u>	<u>202,729</u>	<u>262,770</u>
<b>Plus:</b>			
Realized Gains	656,915	567,117	840,434
Unrealized Gains	3,557,780	5,813,941	6,007,777
Interest Due and Accrued - Current Year	<u>13</u>	<u>18</u>	<u>20</u>
Sub Total	<u>4,214,708</u>	<u>6,381,076</u>	<u>6,848,231</u>
<b>Less:</b>			
Realized Loss	(1,260,171)	(573,977)	(793,981)
Unrealized Loss	(3,983,312)	(2,880,899)	(3,120,692)
Interest Due and Accrued - Prior Year	<u>(18)</u>	<u>(20)</u>	<u>(157)</u>
Sub Total	<u>(5,243,501)</u>	<u>(3,454,895)</u>	<u>(3,914,830)</u>
<b>Net Investment Income (Loss)</b>	<u>(641,127)</u>	<u>3,128,909</u>	<u>3,196,171</u>
<b>Income Required:</b>			
Annuity Savings Fund	30,729	28,766	44,230
Annuity Reserve Fund	87,121	95,864	98,368
Military Service Fund	0	0	0
Expense Fund	<u>401,403</u>	<u>359,364</u>	<u>375,133</u>
<b>Total Income Required</b>	<u>519,254</u>	<u>483,995</u>	<u>517,731</u>
Net Investment Income (Loss)	<u>(641,127)</u>	<u>3,128,909</u>	<u>3,196,171</u>
Less: Total Income Required	<u>519,254</u>	<u>483,995</u>	<u>517,731</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$1,160,381)</u>	<u>\$2,644,914</u>	<u>\$2,678,440</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$520,325	1.7%
Short Term	239,509	0.8%
Equities	1,097,619	3.7%
Pooled Domestic Equity Funds	3,604,615	12.1%
Pooled Alternative Investment Funds	837,195	2.8%
Pooled Real Estate Funds	1,102,040	3.7%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	<u>22,335,474</u>	<u>75.1%</u>
<b>Grand Total</b>	<b><u>\$29,736,778</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2011, the rate of return for the investments of the Swampscott Retirement System was -1.68%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Swampscott Retirement System averaged 1.05%. 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 Swampscott Retirement System was 8.79%.

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

### March 11, 2011

The Swampscott Retirement Board (“Board”) is hereby granted an exemption from the provisions of 840 CMR 21.01(3), 21.01(4), 21.01(6) with respect to certain futures contracts, options, and restricted stock, respectively, and may invest a portion of the funds of the Swampscott Retirement System in the registered mutual fund known as Neuberger Berman Equity Income Fund (“Fund”). The Board is satisfied with the Manager’s representations regarding the other applicable provisions of M.G.L. c. 32 and the regulations of the Public Employee Retirement Administration Commission, as well as the Manager’s representations that it will follow the investment policies which are publicly available in the Fund’s prospectus and statement of additional information, and are subject to the regulatory oversight of the U.S. Securities Exchange Commission.

### September 21, 2010

#### 21.01(6)

The Swampscott Retirement Board is hereby granted an exemption from the provision of 840 CMR 21.01(6) and may invest a portion of the funds of the Swampscott Retirement System in the fund known as the Alger Capital Appreciation Portfolio. The Alger Capital Appreciation Portfolio is a pooled funding vehicle which seeks long-term capital appreciation by investing in equity securities, primarily those which are traded on domestic stock exchanges or in the over-the-counter market. The exemption from the provision of 840 CMR 21.01(6) regarding certain restricted securities (such as PIPEs and 144a securities) will provide the Manager the opportunity to invest in companies with outstanding growth potential at various stages of their existence. The Manager’s analysts, who build their own bottom-up, proprietary research, occasionally identify companies with great growth potential, but investing in such companies is only achieved through these investment vehicles. These investment vehicles are typically not available to the general public, but are available to Qualified Institutional Buyers at reasonable valuations relative to their actual value.

### December 11, 2007

#### 17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Swampscott Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 31, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Swampscott Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Swampscott 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).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

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

#### ORDINARY DISABILITY

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

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

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

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

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

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

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

### METHODS OF PAYMENT

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

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

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

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### ALLOCATION OF PENSION COSTS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the 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 Swampscott Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Creditable Service

May 26, 2010

Members of the Swampscott Retirement System shall receive creditable service, in whole month increments, 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 (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Swampscott Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Swampscott Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the Swampscott Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service. For the purpose of prorating part-time service, 150 hours of service shall be the equivalent of one (1) month of creditable service.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 30th 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 ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the Swampscott Retirement System as set forth in this regulation.
- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.
- Any member purchasing past part-time service rendered shall have said service prorated based on 150 hours being considered a full month of service. Notwithstanding the foregoing,

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time. Members may only purchase past part-time or temporary service rendered in member unit of the Swampscott Retirement System.

May 21, 1998

Any employee of the Town of Swampscott who served as a auxiliary or special police officer in any governmental unit or political subdivision of the Commonwealth prior to becoming a member of the Swampscott Retirement System shall be considered a temporary employee as set forth in G.L. c. 32, § 4(2)(c) and may receive credit for actual service rendered in this capacity, based on the actual compensation received while rendering such service and upon making payment to the System, with interest, prior to the member's actual retirement.

#### Cost of Living Adjustments Guidelines

May 20, 1998

In making determination of whether a cost-of-living adjustment should be granted in any particular year and whether said cost-of-living adjustment would substantially impair the funding scheduled of the Swampscott Retirement System, The Swampscott Retirement Board hereby adopts the following guidelines:

1. A cost-of-living adjustment for eligible retirees and beneficiaries shall not be granted unless the average rate of return on the Swampscott Retirement System's investments for the three-year period immediately preceding the current calendar year is eight percent.
2. Any cost-of-living adjustment will be an amount equal to the Consumer Price Index as calculated by PERAC or three percent whichever is less.
3. The Swampscott Retirement Board is under no obligation to grant cost-of-living adjustments in any particular year.

#### Buybacks

December 17, 1996

An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the retirement system "in one lump sum or in installments" the amount required by c. 71 of the acts of 1996. This allows the member to choose his/her own method or option of payment, thereby eliminating payroll deduction. The total veterans' buyback payment would be payable in full prior to the member's effective date of retirement.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 20, 1995

A member of the Swampscott Retirement system shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered.

Membership

#### Rules and Regulations

January 6, 1995

Membership: Every employee who becomes a member of the Swampscott Retirement System must complete the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment he/she must also furnish the Board with a birth certificate, and if a veteran, a copy of his/her Discharge of Military Service or equivalent which shall be kept on file with the board.

Full-time permanent employees who work at least 30 hours per week and are under age 65 must join the Retirement System as of the date of their employment.

Part-time permanent employees who work at least 20 but less than 30 hours per week and are under the age of 65 must join the retirement system as of their date of employment.

Elected officials who receive compensation may join the Retirement System within ninety (90) days after the date of the assuming office, if under age 65 on the date of election.

Temporary employees, employees who are normally scheduled to work less than 20 hour per week are not eligible for membership in the retirement system. **AMENDED 5/21/98.**

The Retirement Board shall have full jurisdiction to determine the eligibility of employees for membership involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment service.

#### Creditable Service

Full-time permanent employees will receive full credit except in instances where full-time employees also had part-time service.

Any part-time employee who qualifies for membership, shall receive one (1) year of creditable service provided they work the hours required for their position and provided their entire service is on a part-time basis;

Subject to verification as specified by the agency any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position;

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Subject to verification as specified by the agency any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position;

Members who work at least seven continuous months per year will be credited with one year of service for each year worked provided they work the hours required by their position and provided their entire service is on the same basis;

The Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Swampscott governmental employees who were ineligible at the time of their employment in the Swampscott Retirement System;

#### Buy-backs

Members seeking to buy back time must submit, in writing, dates and places of previous employment. The Retirement Board will request all pertinent information from the appropriate agencies;

A member of the Swampscott Retirement system shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered; **(REPEALED June 20, 1995);**

#### Changes in employee status

Members agencies must notify the Retirement Board within ninety (90) days of any changes in employee status including workers compensation, position held and hours in work week

(Note: G.L. c.32, s. 3 (2) (g) requires department heads to notify the board within thirty (30) days of any change in the title, address, rate of compensation, duties or service of any employee in the department);

#### Injuries

All major injuries incurred due to employment must be reported in writing to the Swampscott Retirement Board within 90 days of the accident

#### October 8, 2002

The Board believes that attendance at and participation in educational conferences and seminars which address issues related to the Board's fiduciary duty and administrative responsibility for the management of the retirement system are an integral part of being a Board Member and employee. The Board encourages its Members and staff to attend educational conferences and seminars to better serve the members of the retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Travel Regulations

October 8, 2002

The Swampscott 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/Swampscott>.

## 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: David Castellarin

Appointed Member: Thomas H. Driscoll Jr.                      Until a successor is appointed

Elected Member: Francis E. Delano Jr., Chairman      Term Expires: 08/11/13

Elected Member: John F. Behen Jr                              Term Expires: 12/11/14

Appointed Member: John T. Kiely Jr.                              Term Expires: 01/07/15

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

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

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

Treasurer - Custodian:	)	\$1,000,000 Commercial Crime policy
Ex-officio Member:	)	National Union Fire Insurance Co.
Elected Members:	)	Separate fidelity coverage pertaining to ERISA/Crime to a limit of
Appointed Members:	)	\$1,000,000.00 issued through
Staff Employees:	)	Travelers Casualty and Surety Company

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2011.

The actuarial liability for active members was	\$30,209,206
The actuarial liability for inactive members was	731,456
The actuarial liability for retired members was	<u>40,881,516</u>
The total actuarial liability was	\$71,822,178
System assets as of that date were	<u>33,177,769</u>
The unfunded actuarial liability was	<u>\$38,644,409</u>
The ratio of system's assets to total actuarial liability was	46.2%
As of that date the total covered employee payroll was	\$10,953,584

The normal cost for employees on that date was 9.1% of payroll  
 The normal cost for the employer was 4.8% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Service based table with ultimate rates of 4.0%, 4.0%, and 4.25% for groups 1, 2, and 4 respectively.

#### 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	\$33,177,769	\$71,822,178	\$38,644,409	46.2%	\$10,953,584	352.8%
1/1/2010	\$31,827,581	\$68,326,348	\$36,498,767	46.6%	\$10,747,286	339.6%
1/1/2008	\$33,845,690	\$65,637,453	\$31,791,763	51.6%	\$10,841,912	293.2%
1/1/2006	\$30,492,424	\$58,082,162	\$27,589,738	52.5%	\$10,011,387	275.6%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retirement in Past Years</b>										
Superannuation	25	7	2	1	2	7	5	6	0	1
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	0	2	0	0	0	0	1	0	0
<b>Total Retirements</b>	26	7	4	1	2	7	5	7	0	1
Total Retirees, Beneficiaries and Survivors	214	227	227	224	223	222	221	229	212	202
Total Active Members	282	309	287	272	282	252	241	242	233	233
<b>Pension Payments</b>										
Superannuation	\$1,683,852	\$2,169,481	\$2,345,744	\$2,498,776	\$2,603,919	\$2,641,423	\$2,715,845	\$2,743,274	\$2,832,245	\$2,840,973
Survivor/Beneficiary Payments	96,533	91,246	91,851	95,308	82,083	83,871	92,896	118,241	118,865	113,847
Ordinary Disability	31,873	22,468	15,353	15,713	16,073	16,433	16,796	17,153	17,513	17,888
Accidental Disability	721,145	726,263	727,746	772,879	798,985	759,299	796,070	817,219	748,594	752,966
Other	283,907	293,759	413,171	389,003	365,902	387,506	423,703	477,726	297,487	395,211
<b>Total Payments for Year</b>	<u>\$2,817,310</u>	<u>\$3,303,217</u>	<u>\$3,593,865</u>	<u>\$3,771,679</u>	<u>\$3,866,962</u>	<u>\$3,888,532</u>	<u>\$4,045,310</u>	<u>\$4,173,613</u>	<u>\$4,014,703</u>	<u>\$4,120,885</u>







PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

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