

PERAC AUDIT REPORT



Waltham

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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November 5, 2013

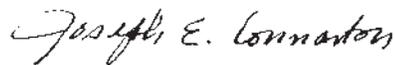
The Public Employee Retirement Administration Commission has completed an examination of the Waltham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management 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.

We commend the Waltham Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Susan W. Kerr and Martin J. Feeney 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



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$2,159,042	\$5,643,949	\$3,531,996
Pooled Alternative Investment Funds	6,874,599	7,044,206	8,813,610
Pooled Real Estate Funds	10,054,542	9,325,145	8,350,200
PRIT Cash Fund	0	0	0
PRIT Core Fund	147,992,180	128,216,334	130,357,564
Interest Due and Accrued	189	0	279
Accounts Receivable	57,562	74,373	89,187
Accounts Payable	<u>(11,453)</u>	<u>(8,005)</u>	<u>(11,138)</u>
Total	<u>\$167,126,661</u>	<u>\$150,296,003</u>	<u>\$151,131,698</u>
Fund Balances:			
Annuity Savings Fund	\$56,097,773	\$53,598,177	\$53,115,539
Annuity Reserve Fund	16,372,817	16,745,762	14,527,169
Pension Fund	17,638,866	18,181,018	22,102,704
Military Service Fund	2,225	2,223	2,219
Expense Fund	0	0	0
Pension Reserve Fund	<u>77,014,979</u>	<u>61,768,823</u>	<u>61,384,066</u>
Total	<u>\$167,126,661</u>	<u>\$150,296,003</u>	<u>\$151,131,698</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)	\$50,652,781	\$14,519,667	\$22,536,070	\$2,212	\$0	\$46,093,180	\$133,803,910
Receipts	5,051,216	436,323	14,970,486	7	1,363,467	17,284,721	39,106,219
Interfund Transfers	(1,902,310)	1,896,242	1,999,903	0	0	(1,993,835)	0
Disbursements	(686,147)	(2,325,062)	(17,403,755)	0	(1,363,467)	0	(21,778,431)
Ending Balance (2010)	53,115,539	14,527,169	22,102,704	2,219	0	61,384,066	151,131,698
Receipts	5,089,458	480,968	14,858,615	4	1,431,115	384,757	22,244,917
Interfund Transfers	(4,332,398)	4,332,398	0	0	0	0	0
Disbursements	(274,422)	(2,594,774)	(18,780,301)	0	(1,431,115)	0	(23,080,611)
Ending Balance (2011)	53,598,177	16,745,762	18,181,018	2,223	0	61,768,823	150,296,003
Receipts	5,010,959	497,611	15,118,858	2	1,496,216	18,836,983	40,960,629
Interfund Transfers	(1,924,895)	1,924,895	3,590,826	0	0	(3,590,826)	0
Disbursements	(586,467)	(2,795,452)	(19,251,837)	0	(1,496,216)	0	(24,129,972)
Ending Balance (2012)	<u>\$56,097,773</u>	<u>\$16,372,817</u>	<u>\$17,638,866</u>	<u>\$2,225</u>	<u>\$0</u>	<u>\$77,014,979</u>	<u>\$167,126,661</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$4,755,469	\$4,635,857	\$4,647,850
Transfers from Other Systems	108,831	244,611	18,881
Member Make Up Payments and Re-deposits	64,593	70,205	90,912
Member Payments from Rollovers	23,261	37,439	141,555
Investment Income Credited to Member Accounts	<u>58,804</u>	<u>101,347</u>	<u>152,017</u>
Sub Total	<u>5,010,959</u>	<u>5,089,458</u>	<u>5,051,216</u>
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement	0	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>497,611</u>	<u>480,968</u>	<u>436,323</u>
Sub Total	<u>497,611</u>	<u>480,968</u>	<u>436,323</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	248,596	116,384	229,473
Pension Fund Appropriation	546,306	608,613	627,872
Settlement of Workers' Compensation Claims	14,289,286	14,133,617	14,106,542
	<u>34,670</u>	<u>0</u>	<u>6,600</u>
Sub Total	<u>15,118,858</u>	<u>14,858,615</u>	<u>14,970,486</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>2</u>	<u>4</u>	<u>7</u>
Sub Total	<u>2</u>	<u>4</u>	<u>7</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,496,216</u>	<u>1,431,115</u>	<u>1,363,467</u>
Sub Total	<u>1,496,216</u>	<u>1,431,115</u>	<u>1,363,467</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	71,659	69,411	81,132
Pension Reserve Appropriation	0	146,050	0
Interest Not Refunded	2,403	1,720	9,052
Miscellaneous Income	0	4,311	(9)
Excess Investment Income	<u>18,762,920</u>	<u>163,264</u>	<u>17,194,546</u>
Sub Total	<u>18,836,983</u>	<u>384,757</u>	<u>17,284,721</u>
Total Receipts, Net	<u>\$40,960,629</u>	<u>\$22,244,917</u>	<u>\$39,106,219</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$156,429	\$50,408	\$430,857
Transfers to Other Systems	<u>430,038</u>	<u>224,014</u>	<u>255,290</u>
Sub Total	<u>586,467</u>	<u>274,422</u>	<u>686,147</u>
Annuity Reserve Fund:			
Annuities Paid	2,795,452	2,594,774	2,324,627
Option B Refunds	<u>0</u>	<u>0</u>	<u>436</u>
Sub Total	<u>2,795,452</u>	<u>2,594,774</u>	<u>2,325,062</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	13,398,299	12,800,557	11,626,326
Survivorship Payments	785,925	752,231	694,527
Ordinary Disability Payments	204,339	186,369	183,443
Accidental Disability Payments	3,020,194	2,961,260	2,929,120
Accidental Death Payments	909,578	945,030	991,074
Section 101 Benefits	176,981	169,280	104,397
3 (8) (c) Reimbursements to Other Systems	262,355	425,201	271,004
State Reimbursable COLA's Paid	<u>494,167</u>	<u>540,372</u>	<u>603,864</u>
Sub Total	<u>19,251,837</u>	<u>18,780,301</u>	<u>17,403,755</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	347,096	272,549	267,755
Legal Expenses	28,566	21,246	20,422
Travel Expenses	9,254	4,585	6,919
Administrative Expenses	15,174	82,342	71,901
Professional Services	11,629	23,183	25,828
Education and Training	2,430	3,240	3,310
Furniture and Equipment	2,995	1,631	0
Management Fees	996,967	938,951	888,592
Custodial Fees	35,590	33,306	30,568
Service Contracts	20,260	24,187	22,694
Fiduciary Insurance	<u>11,254</u>	<u>10,893</u>	<u>10,479</u>
Sub Total	<u>1,496,216</u>	<u>1,431,115</u>	<u>1,363,467</u>
Total Disbursements	<u>\$24,129,972</u>	<u>\$23,080,611</u>	<u>\$21,778,431</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	\$658	\$1,201	\$2,516
Equities	8,156	40,001	35,133
Pooled or Mutual Funds	<u>5,377,626</u>	<u>4,701,778</u>	<u>4,156,260</u>
Total Investment Income	<u>5,386,439</u>	<u>4,742,980</u>	<u>4,193,909</u>
Plus:			
Realized Gains	4,489,922	5,093,787	4,751,574
Unrealized Gains	20,295,715	15,250,895	26,441,648
Interest Due and Accrued - Current Year	<u>189</u>	<u>0</u>	<u>279</u>
Sub Total	<u>24,785,825</u>	<u>20,344,682</u>	<u>31,193,502</u>
Less:			
Realized Loss	(406,398)	(876,986)	(661,351)
Unrealized Loss	(8,950,312)	(22,033,698)	(15,579,678)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>(279)</u>	<u>(23)</u>
Sub Total	<u>(9,356,710)</u>	<u>(22,910,963)</u>	<u>(16,241,052)</u>
Net Investment Income	<u>20,815,554</u>	<u>2,176,699</u>	<u>19,146,359</u>
Income Required:			
Annuity Savings Fund	58,804	101,347	152,017
Annuity Reserve Fund	497,611	480,968	436,323
Military Service Fund	2	4	7
Expense Fund	<u>1,496,216</u>	<u>1,431,115</u>	<u>1,363,467</u>
Total Income Required	<u>2,052,634</u>	<u>2,013,435</u>	<u>1,951,813</u>
Net Investment Income	<u>20,815,554</u>	<u>2,176,699</u>	<u>19,146,359</u>
Less: Total Income Required	<u>2,052,634</u>	<u>2,013,435</u>	<u>1,951,813</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$18,762,920</u>	<u>\$163,264</u>	<u>\$17,194,546</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,159,042	1.3%
Pooled Alternative Investment Funds	6,874,599	4.1%
Pooled Real Estate Funds	10,054,542	6.0%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	<u>147,992,180</u>	<u>88.6%</u>
Grand Total	<u>\$167,080,363</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Waltham Retirement System was 14.17%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Waltham Retirement System averaged 1.57%. For the twenty-eight 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 Waltham Retirement System was 8.62%.

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 twenty-eight 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 Waltham Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 6, 2008

About 20% of the assets of Precision Capital Advisors' Special Opportunities Fund III will be invested in hedge funds managed by Bain Capital. Because its portfolio assets are less than \$250 million, the Waltham Retirement Board would ordinarily not be permitted to invest in hedge funds on its own. The exception provided by this supplementary regulation pertains only to this investment. Strategies employed by these hedge funds may include shorting, modest leverage, and use of derivatives.

April 18, 2007

16.08

In accordance with Investment Guideline 99-2, the Waltham Retirement Board is authorized to make a modest modification to its domestic equity mandate with State Street Global Advisors. Under its previous consultant, the Board had been advised to establish positions in both the SSgA Russell 1000 Value Index Fund and the SSgA Russell 1000 Growth Index Fund. By now consolidating the two funds into a single investment in the SSgA Russell 1000 Index Fund, the Board achieves the same investment strategy but with economies of scale.

August 21, 2006

16.08

The Waltham Retirement Board is authorized to invest in State Street Global Advisors' Lehman Aggregate Bond Index Fund on a temporary basis pending the completion of a competitive search process to find a replacement manager for the fixed income assets currently managed by Credit Suisse Asset Management. CSAM has announced plans to phase out nearly all of its traditional asset management services over the coming months. The Board selected the SSgA product in consideration of its existing satisfactory relationship with the firm and its index products. This authorization will extend through November 30, 2006.

September 10, 2002

16.08

The Waltham Retirement Board is authorized to withdraw the funds currently held in its large cap value mandate with Cutler & Company and temporarily place the proceeds in State Street Global Advisors' Russell 1000 Value Index pending the selection of a permanent replacement manager. This temporary authorization extends through December 31, 2002

April 9, 2001

16.08

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

operate. Consequently, the Waltham Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Waltham request as it applies to 840 CMR 17.04(6).
3. Exemption of the Board and INVESCO from 840 CMR 17.04(7)(a), provided that INVESCO shall disclose to PERAC and the Board in writing, at the time of any investment by a Partnership, any beneficial ownership of the securities involved and/or any related conflict of interest INVESCO expects will impair its ability to render unbiased and objective advice to such Partnership concerning such investment – PERAC is unable to approve the Waltham request as it applies to 840 CMR 17.04(7)(a) at this time. In the event the request is further refined, we would be pleased to once again review its provisions.
4. loans to employees or individuals. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows: "Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Waltham Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.
5. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), 21.01(5), 21.01(6), and 21.01(9) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01 (5) prohibits the purchase of options other than as required to close out option positions; 21.01 (6) prohibits investment in lettered or restricted stock (with the exception of those investments that are venture capital

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

investments, and 21.01(9) prohibits the funds. "PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lexington 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 primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

November 15, 2012

Membership

Positions now qualified for Group 2

The Board acknowledges and recognizes that the positions of Senior Fire Alarm Operator, Fire Alarm Operator, Emergency Telecommunication Dispatcher and Emergency Telecommunication Supervisor all perform the essential duties of Fire Alarm and Police Signal Operators and as such shall be placed in Group 2 pursuant to M.G.L. c. 32, § 3(2)(g).

August 22, 2003

Any individual who is permanently employed twenty (20) hours or more for the City of Waltham, the Waltham School Department or the Waltham Housing Authority shall become a member of the Waltham Retirement System.

March 27, 1995

Acceptation into the Retirement System the job title of "Substitute Service Clerk", which is a full time ten-month position in the School Department.

April 27, 1989

Individuals employed as School Traffic Supervisors, School Physicians and School Dentists of the City of Waltham shall not be eligible for membership in the Waltham Retirement System. This regulation shall take effect March 29, 1989, and shall not apply to those individuals whose membership was accepted prior to March 29, 1989.

March 26, 2013

Creditable Service

Any individual who is an active member of the Waltham Retirement System as of the effective date of this regulation may purchase past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee of the City of Waltham, Waltham School Department and/or Waltham Housing Authority, provided that the member remits to the Waltham Retirement Board the appropriate amount of contributions that would have been withheld, together with buyback interest, had he or she been a member of the System at the time the service was rendered. It shall be the responsibility of the member to obtain, and provide to the Board, verification of this past service rendered, including but not limited to payroll records indicating the amount of compensation received and amount of hours worked. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(1), on a case by case basis, to accept alternative documentation to verify said service and compensation.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

For members who purchase such service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee creditable service shall be calculated based on 170 hours of compensated employment being the equivalent of one (1) month of creditable service. Members shall be credited with full months and full years of past service rendered and purchased. Members shall not receive more than one (1) year credit in any calendar year.

August 22, 2003

Members of the Waltham Retirement System shall receive creditable service in the following manner:

- For a member in service who is employed in a full-time capacity while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
- For a member in service who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar in which the employee is receiving regular compensation for said service.
- For a member in service who has been employed in both a full-time and part-time capacity while an employee in the City of Waltham, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency for the position.
- For a member who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, but who either purchases past refunded service, or has transferred into the Waltham Retirement System service, rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of the position.
- In the case of School Department or City employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive one of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

January 3, 1989

School Traffic Supervisors: Individuals employed as School Traffic Supervisors in the Police Department of the City of Waltham, shall be granted creditable service equal to twelve (12) months for each year of employment if and only if their employment equals that of the total number of hours prescribed by the City of Waltham for that job title or position. Such individual, if at any time, accepts employment in another department of any political subdivision of the Commonwealth

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

of Massachusetts shall be granted a maximum of six (6) months for each year of employment as a School Traffic Supervisor.

August 22, 2003

Buy-back

Any individual who is an active member of the Waltham Retirement System as of 8/22/03 may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee in the City of Waltham, Waltham School Department and/or Waltham Housing Authority, provided that the member remits to the Waltham Retirement Board the appropriate amount of contributions that would have been withheld, together with regular interest, had he or she been a member of the System at the time the service was rendered. It shall be the sole responsibility of the member to obtain, and provide to the Board, verification of this past service rendered, including but not limited to payroll records indicating the amount of compensation received and amount of hours worked. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(1), on a case by case basis, to accept alternative documentation to verify said service and compensation

August 22, 2003

For members who purchase such past service rendered as a part-time, provisional, temporary, temporary provision, seasonal or intermittent employee creditable service shall be calculated based on 1040 hours of compensated employment in the aggregate being the equivalent of one (1) year of creditable service. Members shall be credited with full months and full years of past service rendered and purchased.

March 10, 1997

A member may not purchase periods of prior non-membership service in the City of Waltham pursuant to G.L. c. 32, s 4(2)(c), if the member had social security deductions for the period in question. This rule is effective December 18, 1996

May 17, 1996

Forms

Approval for continued use of the Waltham Retirement Board's Beneficiary Blank or Change of Beneficiary Blank.

April 30, 1990

Election Rules

Approval of the use of a 60-day notice retirement and 35 day nomination period for use in the 1990 Retirement Board election.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 21, 1984

Rules & Regulations

- Any member who desires to establish credit for part-time employment before becoming a member must petition the Board for such credit. All credit must be equivalent to one half of the full-time permanent job classification regular hours or days for which the member was employed part-time;
- Any member who desires to retire under section 56-60 of c. 32 of the M.G.L., must have payroll data evidence to support and verify that such member and public employment prior to July 1, 1939;
- Purchases of unused sick leave; Excess over 200 days while still employed - Buy-back is not subject to retirement deductions or treatment as regular compensation
- Part-time employees excluded from membership by Board vote: Library pages, recreation department seasonal employees (become eligible after six (6) months); summer playground personnel; winter skating personnel; cemetery department - temporary, seasonal help. Most summer workers become eligible after six (6) months. School transportation, nurses, school cafeteria employees who do not work at least 3 1/2 hours per school day regularly. Library department employees classified as library associates, library department part-time custodians. Members of Boards and commissions paid on a per meeting basis.
- Exceptions: Women School Traffic Supervisors
- Part-time positions which can pay an annual rate of compensation, clerk recreation department, Board of Assessors (2 Part Time Employees), Cafeteria workers who work regularly at least 3 1/2 hours per school day.
- The Retirement Board will allow the following types of employed persons to buy back their time:
- Said employees shall include but not be limited to part-time permanent with least twenty (20) hours per week, full-time temporary laborers-full-time intermittent. **(AMENDED MARCH 10, 1997).**

Travel Regulations

The Waltham 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/Waltham>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Paul G. Centofanti

Appointed Member: Thomas J. Magno

Elected Member: Scott A. Hovsepien Term Expires: 6/30/2014

Elected Member: William R. MacDonald Term Expires: 12/19/2014
Chairman

Appointed Member: William F. Wiggin Term Expires: 1/5/2015

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

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

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

Treasurer - Custodian:)	\$50,000,000 Fiduciary Liability
Ex-officio Member:)	\$1,000,000 Fidelity (ERISA) Bond
Elected Members:)	MACRS Master Policy
Appointed Members:)	Travelers Casualty and Surety
Staff Employees:)	Company

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Sherman Actuarial Services as of January 1, 2013..

The actuarial liability for active members was	\$135,739,309
The actuarial liability for retired members was	<u>188,369,884</u>
The total actuarial liability was	\$324,109,193
System assets as of that date were	<u>165,040,789</u>
The unfunded actuarial liability was	<u>\$159,068,404</u>
The ratio of system's assets to total actuarial liability was	50.9%
As of that date the total covered employee payroll was	\$50,696,522

The normal cost for employees on that date was 8.6% of payroll

The normal cost for the employer was 4.9% of payroll

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

Investment Return: 8.25% per annum
 Rate of Salary Increase: 3.5% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

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)
1/1/2013	\$165,040,789	\$324,109,193	\$159,068,404	50.9%	\$50,696,522	313.8%
1/1/2011	\$168,017,364	\$301,356,797	\$133,339,433	55.8%	\$48,493,764	275.0%
1/1/2010	\$160,564,692	\$279,108,340	\$118,543,648	57.5%	\$47,443,385	249.9%
1/1/2008	\$161,934,253	\$251,353,888	\$89,419,635	64.4%	\$45,141,147	198.1%
1/1/2006	\$136,645,912	\$267,164,850	\$130,518,938	51.1%	\$43,804,722	298.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	14	12	11	15	22	24	22	15	39	17
Ordinary Disability	1	0	2	0	0	0	0	0	0	2
Accidental Disability	5	3	1	0	3	3	1	1	1	2
Total Retirements	20	15	14	15	25	27	23	16	40	21
Total Retirees, Beneficiaries and Survivors	836	810	793	782	779	778	792	762	773	774
Total Active Members	916	917	892	936	920	909	895	892	881	906
Pension Payments										
Superannuation	\$10,124,685	\$10,164,494	\$10,227,121	\$10,502,503	\$10,778,155	\$11,198,220	\$11,541,997	\$11,626,326	\$12,800,557	\$13,398,299
Survivor/Beneficiary Payments	511,169	557,892	588,851	650,526	615,346	624,635	661,936	694,527	752,231	785,925
Ordinary Disability	167,411	173,744	181,659	188,945	193,539	192,254	180,650	183,443	186,369	204,339
Accidental Disability	2,684,642	2,827,591	2,716,157	2,815,981	2,897,231	2,843,213	2,900,816	2,929,120	2,961,260	3,020,194
Other	<u>1,941,046</u>	<u>2,132,392</u>	<u>2,042,865</u>	<u>2,035,874</u>	<u>2,131,548</u>	<u>1,964,478</u>	<u>1,929,018</u>	<u>1,970,339</u>	<u>2,079,884</u>	<u>1,843,080</u>
Total Payments for Year	<u>\$15,428,953</u>	<u>\$15,856,113</u>	<u>\$15,756,653</u>	<u>\$16,193,829</u>	<u>\$16,615,819</u>	<u>\$16,822,800</u>	<u>\$17,214,417</u>	<u>\$17,403,755</u>	<u>\$18,780,301</u>	<u>\$19,251,837</u>

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