

PERAC AUDIT REPORT



Watertown
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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December 19, 2013

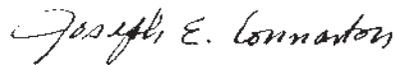
The Public Employee Retirement Administration Commission has completed an examination of the Watertown Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management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

In closing, I acknowledge the work of examiners Martin J. Feeney and James M. Ryan 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	\$860,058	\$250,655	\$1,473,435
Equities	13,585,463	13,039,332	16,599,480
Pooled Domestic Equity Funds	13,972,278	11,999,978	7,928,414
Pooled International Equity Funds	17,024,119	12,425,294	13,047,720
Pooled Global Equity Funds	16,410,502	13,519,429	12,483,269
Pooled Domestic Fixed Income Funds	19,112,065	18,406,030	15,057,491
Pooled Global Fixed Income Funds	2,917,983	2,558,005	0
Pooled Alternative Investment Funds	3,311,219	3,156,852	3,177,589
Pooled Real Estate Funds	9,246,029	8,656,307	3,141,399
PRIT Absolute	7,810,863	7,208,392	3,176,949
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	968,124	16,798,897
Interest Due and Accrued	0	0	74
Accounts Receivable	966,182	256,866	338,090
Accounts Payable	<u>(19,364)</u>	<u>(11,460)</u>	<u>(54,224)</u>
Total	<u>\$105,197,398</u>	<u>\$92,433,806</u>	<u>\$93,168,584</u>
Fund Balances:			
Annuity Savings Fund	\$29,072,256	\$27,704,180	\$26,404,086
Annuity Reserve Fund	8,637,106	8,599,665	8,695,156
Pension Fund	533,537	36,836	261,549
Military Service Fund	81,031	69,726	56,718
Expense Fund	0	0	0
Pension Reserve Fund	<u>66,873,469</u>	<u>56,023,399</u>	<u>57,751,075</u>
Total	<u>\$105,197,398</u>	<u>\$92,433,806</u>	<u>\$93,168,584</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)	\$25,390,295	\$8,033,615	\$464,824	\$21,312	\$0	\$47,364,609	\$81,274,655
Receipts	2,765,195	245,714	9,102,984	35,406	787,846	10,387,757	23,324,902
Interfund Transfers	(1,581,042)	1,582,333	0	0	0	(1,291)	0
Disbursements	(170,363)	(1,166,505)	(9,306,260)	0	(787,846)	0	(11,430,973)
Ending Balance (2010)	26,404,086	8,695,156	261,549	56,718	0	57,751,075	93,168,584
Receipts	2,558,319	254,280	9,313,231	13,007	804,754	(1,751,882)	11,191,709
Interfund Transfers	(933,038)	908,832	0	0	0	24,206	0
Disbursements	(325,186)	(1,258,604)	(9,537,944)	0	(804,754)	0	(11,926,488)
Ending Balance (2011)	27,704,180	8,599,665	36,836	69,726	0	56,023,399	92,433,806
Receipts	2,792,581	261,469	10,295,152	11,305	1,016,342	10,819,147	25,195,997
Interfund Transfers	(1,232,460)	1,201,538	0	0	0	30,922	0
Disbursements	(192,046)	(1,425,565)	(9,798,451)	0	(1,016,342)	0	(12,432,404)
Ending Balance (2012)	<u>\$29,072,256</u>	<u>\$8,637,106</u>	<u>\$533,537</u>	<u>\$81,031</u>	<u>\$0</u>	<u>\$66,873,469</u>	<u>\$105,197,398</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$2,527,341	\$2,395,628	\$2,413,210
Transfers from Other Systems	142,404	61,691	183,332
Member Make Up Payments and Re-deposits	76,985	37,727	47,099
Member Payments from Rollovers	14,823	3,024	44,593
Investment Income Credited to Member Accounts	<u>31,029</u>	<u>60,249</u>	<u>76,962</u>
Sub Total	<u>2,792,581</u>	<u>2,558,319</u>	<u>2,765,195</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>261,469</u>	<u>254,280</u>	<u>245,714</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	147,629	141,538	113,362
Pension Fund Appropriation	544,825	188,193	380,889
Settlement of Workers' Compensation Claims	9,585,898	8,965,000	8,608,733
	<u>16,800</u>	<u>18,500</u>	<u>0</u>
Sub Total	<u>10,295,152</u>	<u>9,313,231</u>	<u>9,102,984</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	11,235	12,894	35,342
Investment Income Credited to the Military Service Fund	<u>70</u>	<u>113</u>	<u>64</u>
Sub Total	<u>11,305</u>	<u>13,007</u>	<u>35,406</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,016,342</u>	<u>804,754</u>	<u>787,846</u>
Sub Total	<u>1,016,342</u>	<u>804,754</u>	<u>787,846</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	20,992	24,236	26,156
Interest Not Refunded	2,839	1,866	1,208
Miscellaneous Income	0	707	17
Excess Investment Income (Loss)	<u>10,795,316</u>	<u>(1,778,692)</u>	<u>10,360,376</u>
Sub Total	<u>10,819,147</u>	<u>(1,751,882)</u>	<u>10,387,757</u>
Total Receipts, Net	<u>\$25,195,997</u>	<u>\$11,191,709</u>	<u>\$23,324,902</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$109,904	\$185,515	\$103,527
Transfers to Other Systems	<u>82,142</u>	<u>139,671</u>	<u>66,836</u>
Sub Total	<u>192,046</u>	<u>325,186</u>	<u>170,363</u>
Annuity Reserve Fund:			
Annuities Paid	1,334,491	1,258,604	1,144,716
Option B Refunds	<u>91,075</u>	<u>0</u>	<u>21,789</u>
Sub Total	<u>1,425,565</u>	<u>1,258,604</u>	<u>1,166,505</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,156,380	5,940,300	5,680,344
Survivorship Payments	684,861	638,241	651,901
Ordinary Disability Payments	117,404	113,293	119,020
Accidental Disability Payments	1,773,904	1,816,652	1,792,863
Accidental Death Payments	685,299	686,230	669,290
Section 101 Benefits	175,843	154,205	142,005
3 (8) (c) Reimbursements to Other Systems	<u>204,760</u>	<u>189,023</u>	<u>250,836</u>
Sub Total	<u>9,798,451</u>	<u>9,537,944</u>	<u>9,306,260</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	127,649	118,040	117,331
Legal Expenses	15,986	24,682	19,523
Travel Expenses	12,522	8,425	8,105
Administrative Expenses	11,496	17,456	9,685
Professional Services	10,000	14,700	16,500
Education and Training	4,460	3,750	3,720
Furniture and Equipment	6,095	1,225	1,534
Management Fees	689,707	487,491	488,944
Custodial Fees	27,336	21,462	23,116
Consultant Fees	67,954	65,975	58,750
Service Contracts	21,410	20,034	19,373
Fiduciary Insurance	<u>6,726</u>	<u>6,512</u>	<u>6,265</u>
Sub Total	<u>1,016,342</u>	<u>804,754</u>	<u>787,846</u>
Total Disbursements	<u>\$12,432,404</u>	<u>\$11,926,488</u>	<u>\$11,430,973</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	\$344	\$722	\$2,859
Equities	260,385	236,055	496,626
Pooled or Mutual Funds	<u>963,727</u>	<u>1,256,325</u>	<u>1,091,410</u>
Total Investment Income	<u>1,224,456</u>	<u>1,493,102</u>	<u>1,590,895</u>
Plus:			
Realized Gains	3,181,641	1,518,574	1,858,216
Unrealized Gains	14,541,481	10,631,016	16,342,066
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>74</u>
Sub Total	<u>17,723,122</u>	<u>12,149,590</u>	<u>18,200,356</u>
Less:			
Realized Loss	(1,066,652)	(988,570)	(1,111,156)
Unrealized Loss	(5,776,700)	(13,313,343)	(7,209,126)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>(74)</u>	<u>(8)</u>
Sub Total	<u>(6,843,352)</u>	<u>(14,301,987)</u>	<u>(8,320,290)</u>
Net Investment Income (Loss)	<u>12,104,226</u>	<u>(659,295)</u>	<u>11,470,961</u>
Income Required:			
Annuity Savings Fund	31,029	60,249	76,962
Annuity Reserve Fund	261,469	254,280	245,714
Military Service Fund	70	113	64
Expense Fund	<u>1,016,342</u>	<u>804,754</u>	<u>787,846</u>
Total Income Required	<u>1,308,910</u>	<u>1,119,397</u>	<u>1,110,586</u>
Net Investment Income (Loss)	<u>12,104,226</u>	<u>(659,295)</u>	<u>11,470,961</u>
Less: Total Income Required	<u>1,308,910</u>	<u>1,119,397</u>	<u>1,110,586</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$10,795,316</u>	<u>(\$1,778,692)</u>	<u>\$10,360,375</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$860,058	0.8%
Equities	13,585,463	13.0%
Pooled Domestic Equity Funds	13,972,278	13.4%
Pooled International Equity Funds	17,024,119	16.3%
Pooled Global Equity Funds	16,410,502	15.7%
Pooled Domestic Fixed Income Funds	19,112,065	18.3%
Pooled Global Fixed Income Funds	2,917,983	2.8%
Pooled Alternative Investment Funds	3,311,219	3.2%
Pooled Real Estate Funds	9,246,029	8.9%
Hedge Funds	7,810,863	7.5%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$104,250,580</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Watertown Retirement System was 12.99%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Watertown Retirement System averaged 2.04%. 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 Watertown Retirement System was 8.25%.

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

May 12, 2011

17.04(3)(b), 21.01(1)-(6)

The Watertown Retirement Board is authorized to invest in the Brandywine Global Opportunistic Fixed Income Fund. Since the Fund is an institutional mutual fund, the portfolio manager's investment recommendations and actions are made on behalf of the Fund in its entirety and not on behalf of any specific shareholder. Thus, 840 CMR 17.04(3)(b) does not apply to this investment. To the extent that the Fund may use forward currency contracts in legitimate hedging strategies involving more than 25% of non-dollar portfolio holdings, to the extent that the Fund may use futures contracts as part of duration hedging strategies, and to the extent that the Fund may own a currency forward unrelated to an underlying portfolio holding as a result of limitations in certain markets, the provisions of 21.01(1)-(6) do not apply to this investment.

November 5, 2010

17.04(3), 21.01(1)-(6)

The Watertown Retirement Board is authorized to invest in the MFS Institutional International Equity Fund. Since the Fund is an institutional mutual fund, the portfolio manager's investment recommendations and actions are made on behalf of the fund in its entirety and not on the behalf of any specific shareholder. Therefore, with reference to recommendations made or actions taken on behalf of a retirement board, the provisions of 17.04(3) do not apply. Since the Fund's prospectus permits the use of futures contracts and options in the implementation of its basic investment strategy and also permits purchases on margin and purchases of restricted stock, the Fund is exempt from the provisions of 21.01(1) (2) (3) (4) (5) and (6).

September 16, 2010

21.01(2)-(5)

The Watertown Retirement Board is authorized to invest in the BlackRock Global Allocation Fund. This fund may employ shorting strategies up to 20% of its total portfolio market value and may also use futures, options, and other derivatives in the execution of its basic portfolio strategy.

April 1, 2002

16.08

In accordance with Investment Guideline 99-2, the Watertown Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IRM Commingled Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

July 26, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Watertown Retirement Board may modify its investment contract with Hutchens Management Company to allow investment in mid cap equities. The board has had a satisfactory relationship with Hutchens as its domestic large cap manager. In recognition of Hutchens' strong performance results for mid cap equities, the Board believes that expanding its mandate to include mid caps is an appropriate way to achieve their asset allocation goals.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

Creditable Service

February 11, 2004

Leave Taken in Conjunction with Unpaid Leave

1. Creditable service shall include any periods of continuous absence during which a member receives partial regular compensation. During such periods, the member shall receive creditable service in proportion to the percentage of partial regular compensation received. If the percentage of partial regular compensation received during such periods equals or exceeds fifty percent (50%) the member shall be credited with full creditable service.

Example: A member on continuance absence under the Family and Medical Leave Act who receives one day of regular compensation per five-day week shall be credited with one day of creditable service for that week. A member who utilizes two and one-half days of regular compensation, or greater, shall receive full creditable service.

2. Creditable service may be allowed by the board for any period of continuous absence without regular compensation which is not in excess of one month. Any portion of any leave or period of continuous absence of any member without regular compensation which is in excess of one month shall not be counted as creditable service.

Example: A member who on unpaid leave under the Family and Medical Leave Act may, upon petition to the Board, receive up to one month of creditable service during such period without payment of retirement contributions.

Membership

October 2, 2002

Part-Time and Temporary Full-Time employees of the Watertown School Department shall be eligible for membership in the Watertown Retirement System after fifteen (15) months of consecutive school year employment in a position which requires him/her to work a minimum of 20 hours per week.

Miscellaneous

April 9, 2001

The Board will not accept liability for service for non-contributing employment service requested by members of other retirement systems, unless the former employees were wrongfully excluded or omitted from membership in the Watertown Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 18, 2000

Employment Service Rendered Under Federal Grants

After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Watertown Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Watertown Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Watertown Retirement System.
2. Active members of the Watertown Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in the Watertown Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Watertown Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.
3. Active members of the Watertown Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

Travel Regulations

The Watertown 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/Watertown>.

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 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: Thomas J. Tracy

Appointed Member: John T. Loughran

Elected Member: Thomas V. Thibault, Chairman Term Expires: 10/15/2014

Elected Member: Domenic Arone Term Expires: 10/15/2013

Appointed Member: Kathleen Kiely-Becchetti Term Expires: 1/31/2015

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

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

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

Treasurer - Custodian:)	Coverage provided to a limit of \$50,000,000 under a master MACRS
Ex-officio Member:)	sponsored policy issued through a
Elected Members:)	layered program with Travelers, National
Appointed Members:)	Union Fire, and Arch. Separate fidelity
Staff Employees:)	coverage pertaining to ERISA/Crime to a limit of \$1,000,000 issued through Travelers Casualty and Surety Company, deductible \$10,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Public Employee Retirement Administration Commission as of January 1, 2012., although a final report has not been prepared.

The actuarial liability for active members was	\$78,744,426
The actuarial liability for retired,beneficiaries, and inactive members was	<u>93,545,890</u>
The total actuarial liability was	\$172,290,316
System assets as of that date were	<u>101,677,187</u>
The unfunded actuarial liability was	<u><u>\$70,613,129</u></u>
The ratio of system's assets to total actuarial liability was	59.0%
As of that date the total covered employee payroll was	\$25,818,598

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

The normal cost for the employer was 6.5% of payroll

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

Investment Return: 8.0% per annum
 Rate of Salary Increase: Varies by Group and Service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	\$101,677,187	\$172,290,316	\$70,613,129	59.0%	\$25,818,598	273.5%
1/1/2010	\$89,432,797	\$155,963,135	\$66,530,338	57.3%	\$25,403,413	261.9%
1/1/2009	\$78,514,694	\$144,633,508	\$66,118,814	54.3%	\$25,266,728	261.7%
1/1/2008	\$97,038,107	\$140,549,411	\$43,511,304	69.0%	\$24,654,987	176.5%
1/1/2006	\$77,395,170	\$130,484,841	\$53,089,671	59.3%	\$22,327,190	237.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	21	8	1	6	13	16	14	17	9	12
Ordinary Disability	0	0	2	0	0	1	0	1	1	0
Accidental Disability	<u>0</u>	<u>1</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>1</u>
Total Retirements	21	9	7	6	14	17	14	20	14	13
 Total Retirees, Beneficiaries and Survivors	443	438	420	409	407	408	408	410	407	402
 Total Active Members	519	515	512	518	515	511	490	501	508	546
 Pension Payments										
Superannuation	\$4,680,344	\$4,844,697	\$5,049,259	\$4,928,956	\$5,026,548	\$5,211,441	\$5,435,018	\$5,680,344	\$5,940,300	\$6,156,380
Survivor/Beneficiary Payments	550,002	550,467	571,757	573,273	580,244	586,162	620,292	651,901	638,241	684,861
Ordinary Disability	147,850	142,978	135,712	127,692	129,985	142,756	130,567	119,020	113,293	117,404
Accidental Disability	1,517,265	1,601,719	1,752,742	1,830,148	1,525,393	1,538,409	1,646,178	1,792,863	1,816,652	1,773,904
Other	<u>792,244</u>	<u>814,974</u>	<u>718,020</u>	<u>737,926</u>	<u>834,443</u>	<u>1,025,004</u>	<u>1,031,028</u>	<u>1,062,132</u>	<u>1,029,458</u>	<u>1,065,903</u>
Total Payments for Year	<u>\$7,687,705</u>	<u>\$7,954,835</u>	<u>\$8,227,490</u>	<u>\$8,197,995</u>	<u>\$8,096,613</u>	<u>\$8,503,772</u>	<u>\$8,863,083</u>	<u>\$9,306,260</u>	<u>\$9,537,944</u>	<u>\$9,798,451</u>

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