

# PERAC AUDIT REPORT



Dukes County Regional  
Contributory Retirement System



JAN. 1, 2004 - DEC. 31, 2007



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

June 22, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Dukes County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners James Tivnan and Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## I. Membership

PERAC auditors sampled employer unit deduction reports to determine that the correct rates are being calculated, and that the additional 2% deduction is withheld from those members who make over \$30,000 on an annualized basis and were hired after January 1, 1979.

- The deduction reports provided to the Retirement System frequently make no clear distinction between compensation qualifying for retirement and compensation excluded from retirement. There is also no clear indication of how many pay periods there are on an annual basis, which is important to know in the case of school employees. These facts complicate any evaluation of the accuracy of the calculation of contributions to the retirement system.
- At least one employer unit relies on specific fixed amounts when applying the 2% additional contribution for members in that unit. The result is that any adjustment in compensation results in an error in this deduction category, unless the payroll clerk manually changes the deduction. This deduction is more commonly and accurately calculated using a formula that applies to per period pay on an annualized basis.
- One unit had many members with a hire date after January 1, 1979 that did not have the additional 2% contribution deducted despite reported compensation that appeared to exceed \$30,000 on an annualized basis. The result is the Retirement System has been receiving less than the required contributions from these members and the employing units.
- Employer units that issue separate payroll checks within the same payroll period may reduce and/or avoid the additional 2% contribution that would apply based on the combined remuneration for that period.
- Employer units utilize pay codes that the Retirement System has not determined whether or not they qualify as regular compensation. We identified a pay type that was not subject to retirement deductions even though it appears to fall under the definition of regular compensation.

**Recommendation:** The Retirement System must comply with G.L. c. 32, § 22(1) (b), and PERAC Memo #43/1999, which discusses the additional 2% deductions.

The employer units must make their deduction reports more meaningful to the Retirement System and make clear the distinction between compensation qualified for retirement and that which is excluded. We encourage all payroll units to engage their payroll provider in an effort to upgrade the quality of the information provided to the retirement system.

The employer units must discontinue relying on manually input fixed amounts for the additional 2% contribution. This process is not a valid financial control. It relies on a visual comparison that has been demonstrated to be unreliable. A calculation formula must be used to accommodate frequent adjustments to base salary and other pay.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Some form of distinction must be defined to identify members who qualify for a larger exclusion from the 2% additional contribution. These are frequently authorized due to fewer pay periods on an annualized basis.

A comprehensive process needs to be initiated to identify all members who qualify for the additional 2% contribution when their total regular compensation exceeds \$30,000 on an annualized basis for any pay period. The system is missing out on an undetermined amount of funding to which it is reasonably entitled to because members are not currently coded as subject to this deduction.

The current policy that allows separate payroll checks to be issued for compensation earned within the same period must be reconsidered. It creates an incentive that avoids or distorts the collection of the additional 2% contribution from eligible compensation.

The Retirement System should be notified of and review all new pay codes to determine if they qualify as regular compensation. In addition, the Retirement System should continue to monitor payroll reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations and other changes involving regular compensation and contribution rates.

### ***Board Response:***

We will continue to work with the Treasurers of all member units building on the meetings that the audit team conducted with those units who had the most errors. We now have worksheets that the audit team forwarded to the Board which we will use when conducting workshops for the treasurers and payroll processing companies.

### **2. Current Retiree Payroll Confirmation**

PERAC auditors inspected the files of recent retirees to determine that the correct benefit was calculated by confirming the wage, service, and age factors. We observed that the three-year average salary information is primarily calculated based on contributions posted to the Retirement System. Department-head or supervisor approval and verification of salary information was not found within the files inspected. This policy relies on correct rate assignments and reliable payroll calculations of both the regular and 2% additional contribution deductions. We identified situations from our sample of members' payroll where there was potentially unreliable data used in this process. This indicates a compelling case to use actual payroll records to confirm the regular compensation used in the high three-year average portion of the benefit calculation.

**Recommendation:** We recommend that the Retirement System require department heads to review and acknowledge the salary history of prospective retirees. Actual payroll records should be used when calculating retirement benefits. Confirming retirement benefits with actual payroll records serves the related purpose of verifying that members' records are maintained accurately on an on-going basis by the Retirement Board. Calculating earnings solely from the amount of

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

contributions attributed to a member's payroll deduction percentage may result in some discrepancy in the benefit to which the member is entitled. Given the inaccuracies identified in the records we inspected, calculating backwards from annual deductions as the primary criteria for determining a benefit is currently not considered a reliable premise. We strongly advocate the Board obtain actual earnings from member unit treasurers/disbursement officers and require the treasurers/disbursement officers to approve each prospective retiree's annual earnings.

### **Board Response:**

The administration of the system will follow this recommendation as time allows. When a member submits their retirement application, the administrator will contact the member unit and ask that they verify the average salary information within a specified timeframe.

### **3. Cash/Bank Reconciliations**

A review of the bank reconciliation for the retiree payroll checking account for the period ending December 31, 2007 revealed twenty-six checks outstanding for more than six months. These outstanding checks totaled \$3,080.01. A more recent reconciliation for activity posted through June 30, 2008 revealed twenty-eight checks outstanding for more than six months. These outstanding checks totaled \$3,530.84. There does not appear to be a reliable process for resolving reconciling items on a timely basis.

**Recommendation:** Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed. Appropriate journal entries should be made to the general ledger on a timely basis to reflect the correction of these items.

### **Board Response:**

The administration will continue to research any checks that are still outstanding after six months. If we are unsuccessful in getting the check processed, the check will be voided, adjustments made to the general ledger and information filed in the member's folder (if it is a benefit check).

### **4. Membership: Active Members Over Seventy**

A sample of active members who were age seventy or older revealed that very few of the members had made an election whether or not to continue contributing to the Retirement System as required under G.L. c. 32, § 90(G)(3/4). At least 180 days before the last day of the month in which a member attains age seventy, the retirement office should contact the member about benefits, options and procedures for continuing in service beyond age seventy. There was no indication in the files that these members had been notified or counseled relative to the implications of this irrevocable election. There did not appear to be a reliable process for notifying the system of similar events in the future.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**Recommendation:** The Retirement System must comply with G.L. c. 32, § 90(G)(3/4). A procedure must be developed to initiate contact with members who are approaching the age of seventy. These members should be counseled on the relative merit of the benefits, options and procedures for continuing in service beyond age seventy. The PERAC Form “Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, § 90(G)(3/4)” is the source evidentiary document that supports this election. The form must be completed in its entirety and maintained in the member’s permanent file.

**Board Response:**

All members over 70 years of age will be contacted and counseled on the relative merits of the benefits, options and procedures for continuing beyond age seventy. We will ensure that the PERAC form “Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70” is completed and on file for each member that is seventy years of age or older. In the future, we will develop a procedure to identify members that approaching the age of seventy so that they are informed of the election and the proper form is on file.

**5. Investment Approval**

The Dukes County Retirement Board funded an investment with Vanguard Institutional Value Index prior to receiving notice from PERAC’s Investment Director that all required documents were submitted.

**Recommendation:** The Board must comply with PERAC’s Investment Regulations, 840 CMR 16.08 which states in part: “The selection and hiring of investment managers, consultants, custodian banks and other investment related service providers by all retirement boards shall be subject to a competitive process which satisfies the boards’ fiduciary duty and meets the requirements of M.G.L. c. 32 and 840 CMR. Prior to retention of the vendor, Boards shall notify the Commission that such a process, as well as the provisions of M.G.L. c. 32 and 840 CMR, was adhered to.” Written acknowledgement from PERAC is required before an investment can be funded. PERAC memorandum #12/2005 dated March 7, 2005 entitled “Overview of Investment Regulation Issues” provides explicit guidance on this issue.

**Board Response:**

The Board has always been in compliance with 840 CMR 16.08 and will continue to do so. In this isolated case it was timing. The Board objects to this finding being in the audit report as this occurred in 2008, which is not within the purview of this audit

**FINAL DETERMINATION:**

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

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2007	2006	2005	2004
<b>Net Assets Available For Benefits:</b>				
Cash	\$2,122,726	\$2,419,847	\$1,977,802	\$2,181,726
Fixed Income Securities	1,913	7,438	42,607	69,808
Equities	14,128,935	12,115,386	10,732,092	5,212,582
Pooled Domestic Equity Funds	0	0	0	13,725,462
Pooled International Equity Funds	1,482,667	2,841,407	4,342,579	0
Pooled Domestic Fixed Income Funds	7,850,944	4,698,162	0	14,132,074
Pooled Real Estate Funds	3,045,375	2,820,953	3,393,564	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	35,612,695	31,318,175	26,951,647	6,598,044
Interest Due and Accrued	3,602	3,055	4,766	3,867
Accounts Receivable	1,035,248	511,041	844,105	1,157,134
Accounts Payable	(315,829)	0	0	0
<b>Total</b>	<b><u>\$64,968,277</u></b>	<b><u>\$56,735,463</u></b>	<b><u>\$48,289,162</u></b>	<b><u>\$43,080,698</u></b>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$19,636,987	\$17,664,148	\$16,497,508	\$14,951,543
Annuity Reserve Fund	4,862,176	4,716,464	4,339,744	4,184,261
Pension Fund	422,313	451,713	88,157	754,663
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	40,046,801	33,903,138	27,363,754	23,190,231
<b>Total</b>	<b><u>\$64,968,277</u></b>	<b><u>\$56,735,463</u></b>	<b><u>\$48,289,162</u></b>	<b><u>\$43,080,698</u></b>

## 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 (2004)	\$13,520,969	\$4,125,483	\$1,347,010	\$0	\$0	\$18,514,303	\$37,507,765
Receipts	2,202,447	120,008	2,132,321	0	235,890	4,672,524	9,363,191
Interfund Transfers	(365,570)	362,166	0	0	0	3,403	0
Disbursements	(406,302)	(423,396)	(2,724,669)	0	(235,890)	0	(3,790,258)
Ending Balance (2004)	14,951,543	4,184,261	754,663	0	0	23,190,231	43,080,698
Receipts	2,505,998	129,890	2,151,318	0	347,199	4,234,262	9,368,667
Interfund Transfers	(516,963)	485,135	92,568	0	0	(60,740)	0
Disbursements	(443,071)	(459,542)	(2,910,392)	0	(347,199)	0	(4,160,204)
Ending Balance (2005)	16,497,508	4,339,744	88,157	0	0	27,363,754	48,289,162
Receipts	2,597,333	125,227	2,262,435	0	498,946	7,808,376	13,292,318
Interfund Transfers	(787,015)	777,992	1,278,014	0	0	(1,268,992)	0
Disbursements	(643,679)	(526,499)	(3,176,893)	0	(498,946)	0	(4,846,016)
Ending Balance (2006)	\$17,664,148	\$4,716,464	\$451,713	\$0	\$0	\$33,903,138	\$56,735,463
Receipts	2,916,262	130,535	3,194,908	0	536,379	6,141,355	12,919,439
Interfund Transfers	(557,835)	555,527	0	0	0	2,308	(0)
Disbursements	(385,588)	(540,351)	(3,224,308)	0	(536,379)	0	(4,686,626)
Ending Balance (2007)	\$19,636,987	\$4,862,176	\$422,313	\$0	\$0	\$40,046,801	\$64,968,277

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005	2004
<b>Annuity Savings Fund:</b>				
Members Deductions	\$2,582,276	\$2,407,651	\$2,189,119	\$2,047,677
Transfers from Other Systems	75,611	21,086	156,266	7,174
Member Make Up Payments and Re-deposits	94,555	73,663	73,734	67,834
Member Payments from Rollovers	59,771	0	0	0
Investment Income Credited to Member Accounts	<u>104,049</u>	<u>94,934</u>	<u>86,879</u>	<u>79,761</u>
Sub Total	<u>2,916,262</u>	<u>2,597,333</u>	<u>2,505,998</u>	<u>2,202,447</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>130,535</u>	<u>125,227</u>	<u>129,890</u>	<u>120,008</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	109,833	88,137	54,123	54,123
Pension Fund Appropriation	<u>69,718</u>	<u>78,867</u>	<u>82,924</u>	<u>114,407</u>
Sub Total	<u>3,015,357</u>	<u>2,095,431</u>	<u>2,014,272</u>	<u>1,963,792</u>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to the Expense Fund	<u>536,379</u>	<u>498,946</u>	<u>347,199</u>	<u>235,890</u>
Sub Total	<u>536,379</u>	<u>498,946</u>	<u>347,199</u>	<u>235,890</u>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	0	0	0	2,758
Pension Reserve Appropriation	597,456	1,517,381	1,598,540	1,409,073
Interest Not Refunded	3,559	4,460	1,603	3,993
Miscellaneous Income	0	0	4	2,922
Excess Investment Income	<u>5,540,341</u>	<u>6,286,535</u>	<u>2,634,115</u>	<u>3,253,779</u>
Sub Total	<u>6,141,355</u>	<u>7,808,376</u>	<u>4,234,262</u>	<u>4,672,524</u>
<b>Total Receipts</b>	<u>\$12,919,439</u>	<u>\$13,292,318</u>	<u>\$9,368,667</u>	<u>\$9,363,191</u>

## STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2007	2006	2005	2004
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$250,956	\$503,407	\$312,862	\$237,120
Transfers to Other Systems	<u>134,632</u>	<u>140,271</u>	<u>130,209</u>	<u>169,182</u>
Sub Total	<u>385,588</u>	<u>643,679</u>	<u>443,071</u>	<u>406,302</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	511,449	508,880	459,542	423,396
Option B Refunds	<u>28,902</u>	<u>17,619</u>	<u>0</u>	<u>0</u>
Sub Total	<u>540,351</u>	<u>526,499</u>	<u>459,542</u>	<u>423,396</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	2,295,808	2,284,472	2,079,344	2,011,353
Survivorship Payments	87,087	77,556	84,395	66,289
Ordinary Disability Payments	93,933	92,352	68,942	56,296
Accidental Disability Payments	381,587	360,685	372,060	337,199
Accidental Death Payments	122,295	174,693	123,921	128,807
Section 101 Benefits	23,406	21,816	22,062	22,062
3 (8) (c) Reimbursements to Other Systems	164,203	112,252	108,265	102,662
State Reimbursable COLA's Paid	55,990	53,066	51,403	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,224,308</u>	<u>3,176,893</u>	<u>2,910,392</u>	<u>2,724,669</u>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	15,000	15,000	15,000	15,000
Salaries	120,743	108,255	120,918	101,668
Legal Expenses	4,646	9,914	4,223	2,592
Medical Expenses	0	0	0	0
Travel Expenses	4,058	10,870	6,015	12,668
Administrative Expenses	21,223	14,266	14,873	30,750
Furniture and Equipment	0	0	0	99
Management Fees	297,313	271,967	151,537	45,955
Custodial Fees	30,867	28,558	10,630	1,320
Consultant Fees	20,000	20,000	20,000	20,000
Rent Expenses	0	0	0	0
Service Contracts	18,322	16,277	0	5,302
Fiduciary Insurance	<u>4,206</u>	<u>3,839</u>	<u>4,004</u>	<u>536</u>
Sub Total	<u>536,379</u>	<u>498,946</u>	<u>347,199</u>	<u>235,890</u>
<b>Total Disbursements</b>	<u>\$4,686,626</u>	<u>\$4,846,016</u>	<u>\$4,160,204</u>	<u>\$3,790,258</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005	2004
<b>Investment Income Received From:</b>				
Cash	\$94,375	\$70,625	\$71,570	\$21,434
Short Term Investments	0	0	0	0
Fixed Income	0	3,719	7,438	7,438
Equities	227,972	176,709	108,548	36,937
Pooled or Mutual Funds	1,676,509	1,369,706	632,348	613,808
Commission Recapture	0	0	0	0
<b>Total Investment Income</b>	<u>1,998,855</u>	<u>1,620,759</u>	<u>819,904</u>	<u>679,617</u>
<b>Plus:</b>				
Realized Gains	3,515,631	2,618,272	1,226,458	583,724
Unrealized Gains	5,415,264	5,255,215	3,180,231	3,481,628
Interest Due and Accrued - Current Year	<u>3,602</u>	<u>3,055</u>	<u>4,766</u>	<u>3,867</u>
Sub Total	<u>8,934,497</u>	<u>7,876,543</u>	<u>4,411,455</u>	<u>4,069,219</u>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	0	0	0	0
Realized Loss	443,196	782,689	96,146	24,053
Unrealized Loss	4,175,797	1,704,205	1,933,261	1,031,880
Interest Due and Accrued - Prior Year	<u>3,055</u>	<u>4,766</u>	<u>3,867</u>	<u>3,465</u>
Sub Total	<u>4,622,049</u>	<u>2,491,659</u>	<u>2,033,275</u>	<u>1,059,398</u>
<b>Net Investment Income</b>	<u>6,311,304</u>	<u>7,005,642</u>	<u>3,198,084</u>	<u>3,689,439</u>
<b>Income Required:</b>				
Annuity Savings Fund	104,049	94,934	86,879	79,761
Annuity Reserve Fund	130,535	125,227	129,890	120,008
Military Service Fund	0	0	0	0
Expense Fund	<u>536,379</u>	<u>498,946</u>	<u>347,199</u>	<u>235,890</u>
<b>Total Income Required</b>	<u>770,963</u>	<u>719,107</u>	<u>563,969</u>	<u>435,660</u>
Net Investment Income	<u>6,311,304</u>	<u>7,005,642</u>	<u>3,198,084</u>	<u>3,689,439</u>
Less: Total Income Required	<u>770,963</u>	<u>719,107</u>	<u>563,969</u>	<u>435,660</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$5,540,341</u>	<u>\$6,286,535</u>	<u>\$2,634,115</u>	<u>\$3,253,779</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,122,726	3.3%	100%
Fixed Income	1,913	0.0%	40-80%
Equities	14,128,935	22.0%	50%
Pooled International Equity Funds	1,482,667	2.3%	10%
Pooled Domestic Fixed Income Funds	7,850,944	12.2%	40-80%
Pooled Real Estate Funds	3,045,375	4.7%	10%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	<u>35,612,695</u>	<u>55.4%</u>	100%
<b>Grand Total</b>	<b><u>\$64,245,256</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2007, the rate of return for the investments of the Dukes County Retirement System was 11.43%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Dukes County Retirement System averaged 11.94%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Dukes County Retirement System was 8.53%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

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

October 16, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee bonds and Eurobonds which shall be limited to 20% of the total fixed income portfolio valued at market.

March 7, 1991

20.03 (1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.04 (1) United States based corporations and equities of foreign corporations.

20.07 (5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07 (9) Commingled real estate funds shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.07 (10) A separate account may be used for real estate provided that:

- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process; and
- (c) should an investment in a separate account result in the direct ownership of real estate or debt, such shall be permitted only until such time as divestiture is prudent.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Dukes County 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 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

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

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

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

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

#### ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

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

#### ACCIDENTAL DISABILITY

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

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. 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 \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

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

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

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

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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### 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 remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") 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" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

March 25, 2008

A full-time employee will receive one (1) full year creditable service for each year employed. A part-time employee whose position has always been part-time is granted full creditable service. A part-time employee who becomes full-time has the part-time service pro-rated.

August 18, 2005

Board created its own waiver form to give to superannuation retirees acknowledging their understanding of retirement and health insurance options.

April 26, 1993

Treasurers of each unit in the retirement system are to be notified not to make retirement deductions unless the individual is to be employed for a longer period than 520 hours or 6 months, except for elected officials. (Revises rule #5 previously approved December 26, 1984)

Part-time, provisional, temporary, seasonal or intermittent employees who are regularly employed for an average of at least 20 hours per week, minimum of 520 hours and have completed 6 months of service must become members of the system. (Revises rule #1 previously approved December 26, 1984)

December 26, 1984

1. Part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employees who has worked for 130 days, or its equivalent, within the calendar year and whose base pay is at least \$1500 per year, must become a member of the system. (REVISED by Rule approved April 26, 1993)

2. Part-time, part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment, be given creditable service based on actual service rendered, provided that in the case of any such employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of 1 year of service actual full time service of not less than 7 months during any one calendar year. A day is to be based on a 7½-hour period of employment in a 37½-hour week.

3. Cafeteria workers or teacher aides who work a five day week for 5 hours or more per day shall be considered full time employees and must become members of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

4. Refunds are to be made to various employees who have had small amounts deducted from their salary by treasurers of towns and entered in error upon the records of the retirement system. Such amounts being too small to entitle the person to membership and/or retirement benefits.

5. Treasurers of each town in the retirement system are to be notified not to make retirement deductions unless the individual is employed for a longer period than 130 days in any one year and receives a salary of \$1500 or more each year, except for elected officials. (REVISED by Rule approved April 26, 1993)

6. A hearing shall be granted to all applicants for accidental disability prior to a decision of the board.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2007.

The actuarial liability for active members was	\$45,801,764
The actuarial liability for retired and inactive members was	<u>36,955,053</u>
The total actuarial liability was	82,756,817
System assets as of that date were (actuarial value)	<u>53,493,298</u>
The unfunded actuarial liability was	<u>\$29,263,519</u>
The ratio of system's assets to total actuarial liability was	64.6%
As of that date the total covered employee payroll was	\$26,285,973

The normal cost for employees on that date was 8.5% of payroll  
 The normal cost for the employer was 5.8% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Varies by group and service

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

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 )
1/1/2007	\$53,493,298	\$82,756,817	\$29,263,519	64.6%	\$26,285,973	111.3%
1/1/2005	\$43,587,979	\$68,303,109	\$24,715,130	63.8%	\$22,710,276	108.8%
1/1/2003	\$36,978,826	\$63,042,045	\$26,063,219	58.7%	\$20,191,180	129.1%
1/1/2001	\$31,491,429	\$45,304,948	\$13,813,519	69.5%	\$18,408,970	75.0%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Retirement in Past Years</b>										
Superannuation	9	5	9	11	35	14	6	8	13	10
Ordinary Disability	0	0	1	0	0	0	0	1	0	0
Accidental Disability	0	2	1	1	2	0	1	1	2	1
<b>Total Retirements</b>	9	7	11	12	37	14	7	10	15	11
Total Retirees, Beneficiaries and Survivors	148	146	155	168	201	211	213	225	223	225
Total Active Members	819	686	932	986	955	987	981	997	1,009	1,033
<b>Pension Payments</b>										
Superannuation	\$792,202	\$921,881	\$1,070,104	\$1,156,628	\$1,358,404	\$1,831,560	\$2,011,353	\$2,079,344	\$2,284,472	\$2,295,808
Survivor/Beneficiary Payments	41,341	41,104	47,261	54,800	63,673	61,753	66,289	84,395	77,556	87,087
Ordinary Disability	31,671	15,914	29,964	41,331	54,028	54,743	56,296	68,942	92,352	93,933
Accidental Disability	168,706	211,591	203,117	279,965	276,749	323,713	337,199	372,060	360,685	381,587
Other	137,425	146,095	182,848	182,280	184,136	163,660	253,531	305,651	361,827	365,893
<b>Total Payments for Year</b>	<u>\$1,171,345</u>	<u>\$1,336,585</u>	<u>\$1,533,294</u>	<u>\$1,715,004</u>	<u>\$1,936,990</u>	<u>\$2,435,429</u>	<u>\$2,724,669</u>	<u>\$2,910,392</u>	<u>\$3,176,893</u>	<u>\$3,224,308</u>

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