

# PERAC AUDIT REPORT



Everett Contributory  
Retirement System

JAN. 1, 2005 - DEC. 31, 2007



# TABLE OF CONTENTS

Letter from the Executive Director .....	1
Statement of Ledger Assets and Liabilities.....	2
Statement of Changes in Fund Balances .....	3
Statement of Receipts.....	4
Statement of Disbursements.....	5
Investment Income .....	6
Schedule of Allocation of Investments Owned.....	7
Supplementary Investment Regulations .....	8
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions .....	9
Note 2 - Significant Accounting Policies .....	16
Note 3 - Supplementary Membership Regulations.....	17
Note 4 - Administration of the System .....	20
Note 5 - Actuarial Valuation and Assumptions.....	21
Note 6 - Membership Exhibit.....	22

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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

JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

September 29, 2008

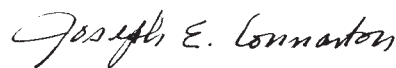
The Public Employee Retirement Administration Commission has completed an examination of the Everett Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management 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. There are no significant audit findings to report.

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

In closing, I acknowledge the work of examiners James Tivnan and James 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,		
	2007	2006	2005
<b>Net Assets Available For Benefits:</b>			
Cash	\$120,365	\$98,283	\$217,302
Pooled Alternative Investment Funds	528,006	494,131	493,095
PRIT Cash Fund	502,860	603,785	203,165
PRIT Core Fund	60,765,685	53,479,161	47,289,750
Interest Due and Accrued	0	0	0
Accounts Receivable	40,171	123,260	388,627
Accounts Payable	(154)	(4,264)	(21,028)
<b>Total</b>	<u>\$61,956,933</u>	<u>\$54,794,357</u>	<u>\$48,570,910</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$25,443,797	\$22,726,871	\$20,525,416
Annuity Reserve Fund	7,099,727	7,823,133	8,516,323
Pension Fund	783,456	1,260,320	984,394
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	28,629,953	22,984,031	18,544,778
<b>Total</b>	<u>\$61,956,933</u>	<u>\$54,794,357</u>	<u>\$48,570,910</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 (2005)	\$18,788,665	\$9,134,446	(\$8,744,308)	\$0	\$0	\$26,956,229	\$46,135,031
Receipts	2,498,727	264,693	7,795,099	0	392,390	3,390,877	14,341,786
Interfund Transfers	(412,933)	416,601	11,798,661	0	0	(11,802,328)	0
Disbursements	(349,043)	(1,299,416)	(9,865,058)	0	(392,390)	0	(11,905,907)
Ending Balance (2005)	20,525,416	8,516,323	984,394	0	0	18,544,778	48,570,910
Receipts	2,914,788	246,031	7,684,963	0	460,572	7,168,212	18,474,566
Interfund Transfers	(344,327)	344,466	2,728,819	0	0	(2,728,957)	0
Disbursements	(369,005)	(1,283,686)	(10,137,856)	0	(460,572)	0	(12,251,120)
Ending Balance (2006)	22,726,871	7,823,133	1,260,320	0	0	22,984,032	54,794,357
Receipts	3,328,249	221,319	9,421,073	0	478,512	5,645,920	19,095,073
Interfund Transfers	(292,430)	292,430	0	0	0	0	0
Disbursements	(318,893)	(1,237,155)	(9,897,936)	0	(478,512)	0	(11,932,496)
Ending Balance (2007)	<u>\$25,443,797</u>	<u>\$7,099,727</u>	<u>\$783,456</u>	<u>\$0</u>	<u>\$0</u>	<u>\$28,629,953</u>	<u>\$61,956,933</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,751,452	\$2,311,324	\$2,116,924
Transfers from Other Systems	425,103	432,605	185,308
Member Make Up Payments and Re-deposits	15,480	49,682	86,116
Investment Income Credited to Member Accounts	<u>136,214</u>	<u>121,178</u>	<u>110,379</u>
Sub Total	<u>3,328,249</u>	<u>2,914,788</u>	<u>2,498,727</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>221,319</u>	<u>246,031</u>	<u>264,693</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	157,466	125,995	156,057
Pension Fund Appropriation	<u>8,694,000</u>	<u>6,973,868</u>	<u>6,623,439</u>
Sub Total	<u>9,421,073</u>	<u>7,684,963</u>	<u>7,795,099</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>478,512</u>	<u>460,572</u>	<u>392,390</u>
Sub Total	<u>478,512</u>	<u>460,572</u>	<u>392,390</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	33,029	38,826	25,684
Pension Reserve Appropriation	0	7,389	0
Interest Not Refunded	2,733	2,452	12,831
Excess Investment Income	<u>5,610,158</u>	<u>7,119,544</u>	<u>3,352,362</u>
Sub Total	<u>5,645,920</u>	<u>7,168,212</u>	<u>3,390,877</u>
<b>Total Receipts</b>	<u>\$19,095,073</u>	<u>\$18,474,566</u>	<u>\$14,341,786</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$268,530	\$278,753	\$208,745
Transfers to Other Systems	<u>50,362</u>	<u>90,253</u>	<u>140,298</u>
Sub Total	<u>318,893</u>	<u>369,005</u>	<u>349,043</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,232,579	1,249,803	1,244,012
Option B Refunds	<u>4,577</u>	<u>33,883</u>	<u>55,404</u>
Sub Total	<u>1,237,155</u>	<u>1,283,686</u>	<u>1,299,416</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	5,756,875	5,790,487	5,767,825
Survivorship Payments	665,612	577,702	571,916
Ordinary Disability Payments	199,866	202,632	257,018
Accidental Disability Payments	1,743,809	2,021,439	1,869,761
Accidental Death Payments	997,854	1,025,295	910,661
Section 101 Benefits	193,212	191,553	182,055
3 (8) (c) Reimbursements to Other Systems	<u>340,708</u>	<u>328,748</u>	<u>305,823</u>
Sub Total	<u>9,897,936</u>	<u>10,137,856</u>	<u>9,865,058</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	18,000	17,250	18,000
Salaries	119,675	115,725	112,855
Legal Expenses	14,328	10,542	7,502
Travel Expenses	3,884	4,555	1,995
Administrative Expenses	3,243	4,986	1,881
Management Fees	300,744	295,308	210,513
Custodial Fees	0	0	27,363
Service Contracts	13,150	7,200	6,955
Fiduciary Insurance	<u>5,487</u>	<u>5,007</u>	<u>5,325</u>
Sub Total	<u>478,512</u>	<u>460,572</u>	<u>392,390</u>
<b>Total Disbursements</b>	<b><u>\$11,932,496</u></b>	<b><u>\$12,251,120</u></b>	<b><u>\$11,905,907</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
<b>Investment Income Received From:</b>			
Cash	\$59,209	\$47,069	\$19,392
Fixed Income	0	0	49,693
Equities	0	0	89,400
Pooled or Mutual Funds	1,878,071	1,656,511	555,977
Commission Recapture	0	0	516
<b>Total Investment Income</b>	<u>1,937,280</u>	<u>1,703,580</u>	<u>714,978</u>
<b>Plus:</b>			
Realized Gains	4,632,143	3,425,460	1,976,600
Unrealized Gains	4,676,148	4,643,772	5,570,161
Sub Total	<u>9,308,290</u>	<u>8,069,233</u>	<u>7,546,761</u>
<b>Less:</b>			
Realized Loss	0	0	(533,308)
Unrealized Loss	(4,799,367)	(1,825,488)	(3,589,519)
Interest Due and Accrued - Prior Year	0	0	(19,088)
Sub Total	<u>(4,799,367)</u>	<u>(1,825,488)</u>	<u>(4,141,916)</u>
<b>Net Investment Income</b>	<u>6,446,203</u>	<u>7,947,325</u>	<u>4,119,823</u>
<b>Income Required:</b>			
Annuity Savings Fund	136,214	121,178	110,379
Annuity Reserve Fund	221,319	246,031	264,693
Military Service Fund	0	0	0
Expense Fund	478,512	460,572	392,390
<b>Total Income Required</b>	<u>836,045</u>	<u>827,780</u>	<u>767,461</u>
Net Investment Income	6,446,203	7,947,325	4,119,823
Less: Total Income Required	836,045	827,780	767,461
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$5,610,158</u>	<u>\$7,119,544</u>	<u>\$3,352,362</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$120,365	0.2%	100%
Pooled Alternative Investment Funds	528,006	0.9%	5%
PRIT Cash Fund	502,860	0.8%	100%
PRIT Core Fund	<u>60,765,685</u>	<u>98.1%</u>	100%
<b>Grand Total</b>	<b><u>\$61,916,916</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2007, the rate of return for the investments of the Everett Retirement System was 11.90%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Everett Retirement System averaged 13.69%. For the twenty-three-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 Everett Retirement System was 9.94%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Everett Retirement System voted on July 27, 2005 to invest all of the system's assets, with the exception of the funds invested with New England Partners, with the PRIT fund as of September 1, 2005. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded, with the exception of the following:

June 30, 1993

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at time of investment, shall be considered a separate asset class, and provided further that:

- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(3) All venture capital investments shall be made in companies which have their principal place of business in the United States.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

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

February 11, 2003

#### CREDITABLE SERVICE

Full time employment shall be considered a workweek of 28 hours or more. Each week of full time employment for a member shall be granted a full week of creditable service. Creditable service for members, who work less than 28 hours per week, shall be calculated on a prorated basis as it relates to full time employment. The denominator in calculating this prorated time shall be 28 hours per week. For example, a member working 14 hours per week shall be granted creditable service for 50% ( $14/28=50\%$ ) of one workweek. Members who are employed less than 28 hours per week and who work a set amount of hours on a consistent basis throughout their career will receive full creditable service provided that they have not been full/part time employees as previously stated.

April 17, 2001

#### MAKE-UP PAYMENTS

Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund. Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

January 9, 2001

#### MEMBERSHIP

Persons who are scheduled to be employed a total of 20 hours per week or more in any job or combination of jobs for at least 7 months in a calendar year are eligible for membership in the retirement system. Persons who do not meet the minimum membership requirements as stated above are not eligible for membership. Membership is mandatory for all employees who are eligible for membership. All eligible employees shall be enrolled in the system at the inception of their employment. Appointed members of boards, commissions, and authorities are not eligible for membership. No creditable service shall be granted for the same, nor will they be eligible to buy back credit for such work. Permanent full time substitute teachers and permanent full time tutors are allowed in system. Nonpermanent and/or non-full time substitute teachers and non-permanent and/or non-full time tutors are not allowed in system.

#### CREDITABLE SERVICE

A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro rata to the appropriate full year. A full year shall be based on a 12month calendar year for all employees with the exception of school department personnel

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

which shall be based on 180 work days per year. (The remainder of this section was rescinded by February 11, 2003 regulation pertaining to Creditable Service)

#### MAKE-UP PAYMENTS

Members may request, in writing, permission to make up payments for their previous employment if the Retirement System from which they were previously employed is established within Chapter 32. Each member requesting permission to make payments for their previous employment shall provide the retirement system with a verified list of salaries earned by them, by calendar year, not including any overtime or bonuses and hours worked on a weekly basis so that eligibility can be determined and a payment can be calculated. Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund. Members of any retirement system established under Chapter 32 may purchase past creditable service from the Everett Retirement System consistent with the provisions of Chapter 32, PERAC regulations and supplemental regulations of the Everett Retirement Board. Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

#### REGULAR COMPENSATION

Regular compensation for purposes of the retirement deductions and retirement allowance calculations shall consist of salary earned, longevity pay, auto allowance, and other such expenses paid on a regular basis and at a regular rate for all employees. Excluded from regular compensation is any compensation resulting from working overtime such as overtime compensation and meal allowances. For fire and police department personnel, regular compensation shall also include night differential, adjunct allowance, holiday pay and hazardous duty material training for fire department personnel only (unless such compensation was considered over-time compensation).

#### SERVICE BUYBACK POLICY

Members of the retirement system may purchase creditable service for previous service with a Massachusetts governmental unit, consistent with the provisions of Chapter 32, in which they received a refund of contributions upon termination. Members may also, in certain situations consistent with the provisions of Chapter 32, purchase creditable service for previous service for a governmental unit in which deductions were not taken. The policy stated below pertains only to the method of purchasing back previous service and is not intended to add to or modify any provisions in Chapter 32 or PERAC regulations concerning the definition of creditable service. It will be the policy of the Everett Retirement Board to require that any request to purchase applicable creditable service will be based on a payment plan submitted by the member, and subject to board approval, that will pay the necessary amount, including interest, within a five-year period. Furthermore, the member shall make the payments on an annual basis to the Everett Retirement Board. The member may elect to make periodic payments to a financial institution and instruct such institution to make the necessary annual payment to the Everett Retirement Board.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

The staff of the retirement system will advise members of financial institutions, if any, who may provide this service. Members who are unable to purchase their creditable service within a five-year period due to a proven hardship may petition the board for a period of payment in excess of five years. The petition to the board must clearly demonstrate the financial hardship in writing to the board. The Everett Retirement Board will review each such request and will vote to accept, reject, or request modifications/clarifications to such petition. These supplemental rule provides rules for membership, creditable service, make up payments, regular compensation, meetings, and service buyback and are consistent with the provisions of G.L. c. 32.

August 24, 1994

#### MEMBERSHIP

The Retirement Board will not require seasonal employees to join the retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: Lawrence Decoste

Appointed Member: Harold J. Mayo

Elected Member: Ronald V. D'Onofrio                      Term Expires: 04/14/09

Elected Member: William J. Pierce                      Term Expires: 12/29/08

Appointed Member: Peter Cocciardi                      Term Expires: 07/25/10

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 and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

Treasurer - Custodian:	)	\$ 50,000,000
Ex-officio Member:	)	\$ 1,000,000 Crime
Elected Member:	)	Traveler's, Arch and
Appointed Member:	)	National Union Fire
Staff Employee:	)	

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2007.

The actuarial liability for active members was	\$63,888,430
The actuarial liability for inactive and retired members was	<u>87,247,780</u>
The total actuarial liability was	151,136,210
System assets as of that date were (actuarial value)	<u>50,378,155</u>
The unfunded actuarial liability was	<u>\$100,758,055</u>
The ratio of system's assets to total actuarial liability was	33.3%
As of that date the total covered employee payroll was	\$27,430,119

The normal cost for employees on that date was 8.55% of payroll  
 The normal cost for the employer was 6.90% of payroll

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

Investment Return: 8.25% 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	\$50,378,155	\$151,136,210	\$100,758,055	33.3%	\$27,430,119	367.3%
1/1/2006	\$48,092,332	\$143,150,218	\$95,057,886	33.6%	\$24,164,456	393.4%
1/1/2004	\$50,498,034	\$128,181,364	\$77,683,330	39.4%	\$20,907,478	371.6%
1/1/2001	\$51,659,622	\$113,565,481	\$61,905,859	45.5%	\$21,178,617	292.3%

## 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	16	10	13	14	13	48	5	9	8	5
Ordinary Disability	0	0	1	0	1	1	0	0	0	0
Accidental Disability	2	1	2	1	3	3	4	0	0	0
<b>Total Retirements</b>	18	11	16	15	17	52	9	9	8	5
Total Retirees, Beneficiaries and Survivors	620	609	613	599	601	634	619	634	597	575
Total Active Members	618	641	656	646	605	528	544	547	629	672
<b>Pension Payments</b>										
Superannuation	\$4,306,873	\$4,489,471	\$4,718,233	\$4,900,446	\$4,907,406	\$5,407,481	\$5,828,149	\$5,767,825	\$5,790,487	\$5,756,875
Survivor/Beneficiary Payments	450,629	450,523	463,520	473,636	481,174	502,960	578,958	571,916	577,702	665,612
Ordinary Disability	280,716	253,442	267,847	277,444	291,154	298,802	291,405	257,018	202,632	199,866
Accidental Disability	1,824,971	1,906,232	1,914,346	1,814,595	1,723,276	1,857,609	1,886,128	1,869,761	2,021,539	1,743,809
Other	762,324	983,670	1,131,581	1,113,387	1,000,767	1,576,356	1,373,313	1,398,539	1,545,595	1,531,774
<b>Total Payments for Year</b>	<u>\$7,625,513</u>	<u>\$8,083,338</u>	<u>\$8,495,527</u>	<u>\$8,579,508</u>	<u>\$8,403,777</u>	<u>\$9,643,208</u>	<u>\$9,957,953</u>	<u>\$9,865,058</u>	<u>\$10,137,956</u>	<u>\$9,897,936</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

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