

# PERAC AUDIT REPORT



Everett  
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2009



## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Finding and Recommendation .....	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances .....	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income .....	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations .....	9
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions .....	10
Note 2 - Significant Accounting Policies .....	17
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System .....	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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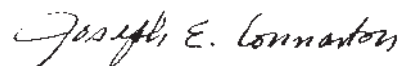
February 8, 2011

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, 2008 to December 31, 2009. 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 noted in the finding presented in this report.

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

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDING AND RECOMMENDATION

### **Board Member Attendance**

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 31 percent of meetings in 2009 and 33 percent of the meetings through September 2010. The result is an attendance rate of a Board member that was below the 75 percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive.

**Recommendation:** Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where an excessive level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

### **Board Response:**

It is the fiduciary duty of Board Members to participate and attend Board meetings. The Board will monitor attendance in order to maintain a minimal absentee rate for each member.

### **FINAL DETERMINATION:**

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

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2009	2008
<b>Net Assets Available For Benefits:</b>		
Cash	\$78,765	\$233,194
Pooled Alternative Investment Funds	29,363	131,785
PRIT Cash Fund	500,191	400,435
PRIT Core Fund	53,733,835	43,301,215
Accounts Receivable	32,598	30,292
Accounts Payable	(72)	0
<b>Total</b>	<u>\$54,374,680</u>	<u>\$44,096,921</u>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$28,098,755	\$27,038,886
Annuity Reserve Fund	7,390,389	6,841,062
Pension Fund	2,735,359	1,381,440
Military Service Fund	19,745	0
Expense Fund	0	0
Pension Reserve Fund	16,130,431	8,835,533
<b>Total</b>	<u>\$54,374,680</u>	<u>\$44,096,921</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 (2008)	\$25,443,797	\$7,099,727	\$783,456	\$0	\$0	\$28,629,953	\$61,956,933
Receipts	3,309,674	205,798	10,250,244	0	442,670	(19,794,420)	(5,586,034)
Interfund Transfers	(795,689)	795,689	0	0	0	0	0
Disbursements	(918,896)	(1,260,153)	(9,652,260)	0	(442,670)	0	(12,273,978)
Ending Balance (2008)	27,038,886	6,841,062	1,381,440	0	0	8,835,533	44,096,921
Receipts	3,107,203	215,834	11,157,213	19,745	471,019	7,295,902	22,266,916
Interfund Transfers	(1,622,266)	1,628,147	(4,878)	0	0	(1,003)	0
Disbursements	(425,068)	(1,294,654)	(9,798,416)	0	(471,019)	0	(11,989,157)
Ending Balance (2009)	<u>\$28,098,755</u>	<u>\$7,390,389</u>	<u>\$2,735,359</u>	<u>\$19,745</u>	<u>\$0</u>	<u>\$16,130,431</u>	<u>\$54,374,680</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Annuity Savings Fund:</b>		
Members Deductions	\$2,892,435	\$2,930,021
Transfers from Other Systems	66,625	189,841
Member Make Up Payments and Re-deposits	19,168	44,543
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>128,976</u>	<u>145,270</u>
Sub Total	<u>3,107,203</u>	<u>3,309,674</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>215,834</u>	<u>205,798</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	147,003	140,166
	504,210	560,078
Pension Fund Appropriation	10,506,000	9,550,000
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>
Sub Total	<u>11,157,213</u>	<u>10,250,244</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	19,745	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>
Sub Total	<u>19,745</u>	<u>0</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	471,019	442,670
Sub Total	<u>471,019</u>	<u>442,670</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	27,527	27,828
Pension Reserve Appropriation	0	0
Interest Not Refunded	1,590	19,657
Miscellaneous Income	0	0
Excess Investment Income (Loss)	<u>7,266,784</u>	<u>(19,841,905)</u>
Sub Total	<u>7,295,902</u>	<u>(19,794,420)</u>
<b>Total Receipts, Net</b>	<u>\$22,266,916</u>	<u>(\$5,586,034)</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$155,503	\$684,642
Transfers to Other Systems	<u>269,566</u>	<u>234,254</u>
Sub Total	<u>425,068</u>	<u>918,896</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	1,294,654	1,234,130
Option B Refunds	<u>0</u>	<u>26,023</u>
Sub Total	<u>1,294,654</u>	<u>1,260,153</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	5,955,556	5,832,059
Survivorship Payments	609,015	626,373
Ordinary Disability Payments	170,183	161,029
Accidental Disability Payments	1,794,175	1,746,835
Accidental Death Payments	945,396	946,079
Section 101 Benefits	200,064	195,754
3 (8) (c) Reimbursements to Other Systems	124,026	144,131
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>9,798,416</u>	<u>9,652,260</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	18,000	18,000
Salaries	125,556	126,048
Legal Expenses	14,837	10,900
Medical Expenses	95	0
Travel Expenses	6,013	1,795
Administrative Expenses	3,068	7,373
Furniture and Equipment	0	324
Management Fees	283,234	259,574
Service Contracts	14,239	12,995
Fiduciary Insurance	<u>5,976</u>	<u>5,660</u>
Sub Total	<u>471,019</u>	<u>442,670</u>
<b>Total Disbursements</b>	<u>\$11,989,157</u>	<u>\$12,273,978</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
<b>Investment Income Received From:</b>		
Cash	\$4,097	\$19,884
Short Term Investments	0	0
Fixed Income	0	0
Equities	0	0
Pooled or Mutual Funds	<u>1,379,968</u>	<u>1,840,161</u>
<b>Total Investment Income</b>	<u>1,384,065</u>	<u>1,860,045</u>
<b>Plus:</b>		
Realized Gains	1,091,893	673,621
Unrealized Gains	12,254,670	2,932,197
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>
Sub Total	<u>13,346,563</u>	<u>3,605,818</u>
<b>Less:</b>		
Realized Loss	(3,129,366)	(3,966,148)
Unrealized Loss	(3,518,649)	(20,547,882)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>
Sub Total	<u>(6,648,015)</u>	<u>(24,514,030)</u>
<b>Net Investment Income (Loss)</b>	<u>8,082,614</u>	<u>(19,048,167)</u>
<b>Income Required:</b>		
Annuity Savings Fund	128,976	145,270
Annuity Reserve Fund	215,834	205,798
Military Service Fund	0	0
Expense Fund	<u>471,019</u>	<u>442,670</u>
<b>Total Income Required</b>	<u>815,829</u>	<u>793,738</u>
Net Investment Income (Loss)	<u>8,082,614</u>	<u>(19,048,167)</u>
Less: Total Income Required	<u>815,829</u>	<u>793,738</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$7,266,784</u>	<u>(\$19,841,905)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$78,765	0.1%
Pooled Alternative Investment Funds	29,363	0.1%
PRIT Cash Fund	500,191	0.9%
PRIT Core Fund	<u>53,733,835</u>	<u>98.9%</u>
<b>Grand Total</b>	<b><u>\$54,342,154</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2009, the rate of return for the investments of the Everett Retirement System was 18.04%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Everett Retirement System averaged 3.59%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Everett Retirement System was 8.30%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Everett Retirement Board has more than ninety-nine per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments could not be abrogated and remain under the care and custody of the Everett Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the Internet as follows: <http://www.mass.gov/perac/investsup/everettintsup.html>.

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

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire 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 and have less than 10 years of accumulated creditable service may receive 3% interest on their contributions if they voluntarily terminate their service and apply for a refund after July 1, 2010.

## 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 \$729.84 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 \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase 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.

Cash is 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 relies upon the investment strategy of the PRIT Fund to advise them of their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

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. Non-permanent 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 12-month calendar year for all employees with the exception of school department personnel which shall be based on 180 work days per year.

Full time employment shall be considered a workweek of 30 hours or more. Each week of full time employment for a member shall be granted a full week of creditable service.

## NOTES TO FINANCIAL STATEMENTS (Continued)

Creditable service for members, who work less than 30 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 30 hours per week. For example a member working 12 hours per week shall be granted creditable service for 40% ( $12/30=40\%$ ) of one workweek.

Members who are employed less than 30 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 time/part time employees as previously stated.

### 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).

### Date of Monthly Board Meetings:

Retirement board meetings to be held on the last Wednesday of the month at 9:00 AM unless a majority of the board votes otherwise.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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. 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.

December 30, 1998

### Membership:

#### I.03: Prohibition Against Certain Persons Holding Certain Positions

No individual who has been convicted of robbery, bribery, extortion, embezzlement, fraud, grand larceny, burglary, arson, a felony violation of state or federal law defined in Section 102(a) of the Comprehensive Drug Abuse Prevention and Control Act of 1970, murder, rape, kidnapping, perjury, assault with intent to kill, any crime described in Section 9(a)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-9(a)(1)), a violation of Section 302 of the Labor-Management Relations Act, 1947 ( 29 U.S.C. 186), a violation of Chapter 63 of Title 18, United States Code, a violation of Section 874, 1027, 1503, 1505, 1506, 1510, 1951, or 1954 of Title 18 United States Code, a violation of the Labor-Management Reporting and Disclosure Act of 1959 (29 U.S.C. 401), any felony involving abuse or misuse of such person's position or employment in a labor organization or employee benefit plan to seek or obtain an illegal gain at the expense of the members of the labor organization or the beneficiaries of the employee benefit plan, or conspiracy to commit any such crimes, or a crime in which any of the foregoing is an element or has been found by the Commission or any court to have violated his/her fiduciary duty

## NOTES TO FINANCIAL STATEMENTS (Continued)

or has been found by the Ethics Commission or any court to have violated M.G.L. c. 268A, shall serve or be permitted to serve:

- (1) As a member, administrator, fiduciary, officer, trustee, custodian, counsel, agent, employee or representative in any capacity of a board.
- (2) As a consultant, manager or provider of goods or services to a board
- (3) In any capacity that involves decision making authority or custody or control of the monies, funds, assets or property of any system.

The undersigned hereby certifies that it has read the foregoing regulation, 840 CMR 1.03, that it has made a diligent thorough and reasonable inquiry of its agents and employees, and that no person who has been convicted or found in violation of the offenses listed in said regulation has any substantive dealings with the affairs of the Everett Retirement System in any capacity listed above. The undersigned further acknowledges and agrees that the obligation to screen its agents and employees under this regulation is a continuing one.

### Agreement of Indemnity:

The undersigned hereby agrees to indemnify the said Everett Retirement System for any pecuniary loss or damage or cost incurred by the Everett Retirement System as a result of any violation of said regulation resulting from the relationship of the undersigned to the Everett Retirement System.

August 24, 1994

### Membership:

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

August 29, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). (Regulation available upon written request)



## 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, 2010.

The actuarial liability for active members was	\$79,084,278
The actuarial liability for vested terminated members was	1,024,842
The actuarial liability for non-vested terminated members was	650,641
The actuarial liability for retired members and survivors was	<u>88,280,799</u>
The total actuarial liability was	169,040,560
System assets as of that date were	<u>63,848,040</u>
The unfunded actuarial liability was	<u>\$105,192,520</u>
The ratio of system's assets to total actuarial liability was	37.8%
As of that date the total covered employee payroll was	\$31,213,272

The normal cost for employees on that date was 8.8% of payroll  
 The normal cost for the employer was 7.1% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Service based; varies by group classification,  
 ranges from 4.75% to 5.25%

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

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 )
1/1/2010	\$63,848,040	\$169,040,560	\$105,192,520	37.8%	\$31,213,272	337.0%
1/1/2008	\$57,879,758	\$156,991,271	\$99,111,513	36.9%	\$31,005,347	319.7%
1/1/2007	\$50,378,155	\$151,136,210	\$100,758,055	33.3%	\$27,430,119	367.3%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	13	14	13	48	5	9	8	5	11	17
Ordinary Disability	1	0	1	1	0	0	0	0	0	2
Accidental Disability	2	1	3	3	4	0	0	0	3	2
<b>Total Retirements</b>	16	15	17	52	9	9	8	5	14	21
Total Retirees, Beneficiaries and Survivors	613	599	601	634	619	634	597	575	557	552
Total Active Members	618	641	656	646	605	528	544	547	629	672
<b>Pension Payments</b>										
Superannuation	4,718,233	4,900,446	4,907,406	5,407,481	5,828,149	5,767,825	5,790,487	5,756,875	\$5,832,059	\$5,955,556
Survivor/Beneficiary Payments	463,520	473,636	481,174	502,960	578,958	571,916	577,702	665,612	626,373	609,015
Ordinary Disability	267,847	277,444	291,154	298,802	291,405	257,018	202,632	199,866	161,029	170,183
Accidental Disability	1,914,346	1,814,595	1,723,276	1,857,609	1,886,128	1,869,761	2,021,539	1,743,809	1,746,835	1,794,175
Other	<u>1,131,581</u>	<u>1,113,387</u>	<u>1,000,767</u>	<u>1,576,356</u>	<u>1,373,313</u>	<u>1,398,539</u>	<u>1,545,595</u>	<u>1,531,774</u>	<u>1,285,964</u>	<u>1,269,487</u>
<b>Total Payments for Year</b>	<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>	<u>\$9,652,260</u>	<u>\$9,798,416</u>

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