

PERAC AUDIT REPORT



Gloucester
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2008



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Finding(s) and Recommendation(s)	2
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances	6
Statement of Receipts.....	7
Statement of Disbursements.....	8
Investment Income	9
Schedule of Allocation of Investments Owned.....	10
Supplementary Investment Regulations	11
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	12
Note 2 - Significant Accounting Policies	19
Note 3 - Supplementary Membership Regulations.....	21
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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July 19, 2010

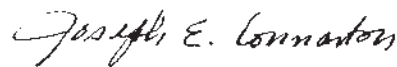
The Public Employee Retirement Administration Commission has completed an examination of the Gloucester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiner 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



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Member Deductions

PERAC auditor sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. It was observed that the 2% deduction is being under withheld for members who receive coaching stipends. The stipends are combined with other earnings on one payroll check, however, the 2% base for the bi-weekly payroll period is applied separately to both regular earnings and the stipend earnings. In effect this results in withholding the additional 2% on annualized earnings of over \$60,000 instead of the required \$30,000 annualized amount.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. Furthermore, other types of stipend earnings should be monitored by the Board's staff on a periodic basis to ensure that the payroll system is correctly withholding the correct 2% deduction.

Board Response:

The Board has instructed the member unit's payroll officers to withhold the additional 2% on total regular compensation over \$30,000 on a per-pay-period, and will enhance payroll monitoring to ensure compliance with G.L. c 32 s 22 (1)(b).

2. Membership

The Board has a supplemental regulation that requires permanent part-time or permanent full-time employees to become members of the Gloucester Retirement System if they have been hired to work at least twenty hours per week in a calendar year. However, until Teacher's Aides or anyone employed in a similar capacity has completed six months of employment, they will not be admitted as members. The Board relies on the City's Personnel Director to monitor this eligibility requirement. During a review of the City's February 12, 2010 payroll registers, it was observed that three individuals had not been flagged for membership in spite of their eligible status. One person has worked an average of 35 hours per week since being hired by the Gloucester School System in October of 2005. The second person has averaged hours well in excess of the 20 hour per week requirement. The third employee is a certified teacher who works 30 hours per week, but is not a member of either the Massachusetts Teachers or the Gloucester Retirement Board. This individual contributes to OBRA and may be retired.

Recommendation: The Board must set up a compensating control to monitor membership status. It is recommended that the staff periodically review City of Gloucester payroll registers to monitor membership status. A year-to-date exception report could be run to identify non-members with significant hours and regular earnings. These situations could be further investigated with the Personnel Director.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The three member's eligibility status should be resolved and they should pay annuity contributions into the Gloucester Retirement System if appropriate.

Board Response:

The Board has undertaken a review of the member's eligibility status and will enhance its review of payroll registers to ensure that the system's membership regulations are appropriately applied. The Board has authorized a review of all its membership regulations in conjunction with legal counsel to ensure compliance with legislative changed (*sic*) to Chapter 32.

3. Payroll Withholding

Due to an administrative oversight, it was observed that a Board member, staff member, and a financial consultant had not had federal Medicare withheld from their earnings over the two-year audit period. Furthermore, the employer matching portion was not calculated and deposited with the IRS. The auditor observed that this practice had been in place prior to the 2007-2008 audit periods. The issue was resolved in April 2010 with the new payroll software provider. Prior to that, the Gloucester Retirement System manually administered staff and Board payrolls.

Recommendation: It is critical that all applicable federal tax withholdings are calculated and deposited with the IRS in order to avoid tax penalties and interest. In order to avoid a misperception of employee status, consultants should not have federal and state taxes withheld from their earnings. Only full or part-time employees are subject to state and federal income tax withholding. Consultants must be paid without taxes being withheld and should be issued a federal form 1099 at year end.

If the staff is administering payrolls and payroll tax withholdings and deposits, the Board must ensure that the staff has the proper training to interpret payroll tax laws.

Board Response:

As PERAC noted, these issues were resolved in April 2010 with the Board's new payroll software provider.

4. Consulting Contracts

Required consulting contracts were signed by three consultants who were hired by the Board to provide financial and administrative consultation services during 2008 and up to the present period of audit field work in April 2010. It was also observed that an RFP (Request for Proposal) process was not used.

Recommendation: "Best Business Practices" require that written contracts must be signed by all consultants providing services to the Board. Board members must also approve the contracted services and ensure that the services being performed are strictly those of an independent

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

contractor and not an employee. “Best Business Practices” also require the Board to select all consultants through an RFP process, including those providing financial and payroll services.

Board Response:

As PERAC noted, contracts have been signed by the consultants. While “best business practices” may suggest that an RFP process be utilized for financial and administrative consultants, and while the Board does utilize the RFP process when necessary, it is respectfully noted that no such requirement is contained in G.L. c 32, not in PERAC’s Regulations. Moreover, G.L. c 30B, the Uniform Procurement Act, expressly exempts contracts for retirement board services. In view of the limited and well known pool of service providers in this highly specialized area, the absence of a formal RFP process was warranted under the circumstances.

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,	
	2008	2007
Net Assets Available For Benefits:		
Cash	\$363,017	\$1,050,446
Pooled Domestic Equity Funds	0	16,569,250
Pooled International Equity Funds	0	8,309,936
Pooled Global Equity Funds	0	7,939,963
Pooled Domestic Fixed Income Funds	0	15,055,614
Pooled Alternative Investment Funds	0	5,060,366
Pooled Real Estate Funds	0	2,970,105
Pooled International Balanced Funds	0	8,973,346
PRIT Cash Fund	75,293	0
PRIT Core Fund	51,129,093	7,803,309
Interest Due and Accrued	0	2,618
Accounts Receivable	0	58,846
Accounts Payable	(83)	(32,087)
Total	<u>\$51,567,321</u>	<u>\$73,761,710</u>
Fund Balances:		
Annuity Savings Fund	22,313,718	21,498,888
Annuity Reserve Fund	6,808,695	6,763,960
Pension Fund	3,026,366	2,440,964
Military Service Fund	14,294	14,209
Expense Fund	0	0
Pension Reserve Fund	19,404,246	43,043,688
Total	<u>\$51,567,320</u>	<u>\$73,761,710</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 (2007)	\$20,193,202	\$6,617,617	\$(320,647)	\$14,125	\$0	\$41,416,233	\$67,920,529
Receipts	2,507,620	191,985	5,822,988	84	597,028	5,091,439	14,211,144
Interfund Transfers	(964,041)	969,327	3,458,697	0	0	(3,463,984)	0
Disbursements	(237,893)	(1,014,969)	(6,520,074)	0	(597,028)	0	(8,369,963)
Ending Balance (2007)	21,498,888	6,763,960	2,440,964	14,209	0	43,043,688	73,761,710
Receipts	2,277,007	203,676	6,132,744	85	564,804	(22,486,251)	(13,307,935)
Interfund Transfers	(887,390)	839,996	1,200,585	0	0	(1,153,191)	0
Disbursements	(574,787)	(998,937)	(6,747,927)	0	(564,804)	0	(8,886,455)
Ending Balance (2008)	<u>\$22,313,718</u>	<u>\$6,808,695</u>	<u>\$3,026,366</u>	<u>\$14,294</u>	<u>\$0</u>	<u>\$19,404,246</u>	<u>\$51,567,320</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
	Annuity Savings Fund:	
Members Deductions	\$2,037,781	\$2,061,474
Transfers from Other Systems	59,635	240,576
Member Make Up Payments and Re-deposits	40,437	59,774
Member Payments from Rollovers	15,109	27,590
Investment Income Credited to Member Accounts	<u>124,044</u>	<u>118,206</u>
Sub Total	<u>2,277,007</u>	<u>2,507,620</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>203,676</u>	<u>191,985</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	63,819	42,946
Pension Fund Appropriation	260,859	267,517
Pension Fund Appropriation	5,808,066	5,512,525
Settlement of Workers' Compensation Claims	0	0
Sub Total	<u>6,132,744</u>	<u>5,822,988</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	\$0	\$0
Investment Income Credited to the Military Service Fund	<u>85</u>	<u>84</u>
Sub Total	<u>85</u>	<u>84</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>564,804</u>	<u>597,028</u>
Sub Total	<u>564,804</u>	<u>597,028</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	\$14,946	\$22,567
Pension Reserve Appropriation	0	47,937
Interest Not Refunded	4,990	1,740
Miscellaneous Income	1,973	\$431
Excess Investment Income	<u>(22,508,159)</u>	<u>5,018,764</u>
Sub Total	<u>(22,486,251)</u>	<u>5,091,439</u>
Total Receipts (Net)	<u>\$(13,307,935)</u>	<u>\$14,211,144</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Refunds to Members	\$164,961	\$114,887
Transfers to Other Systems	<u>409,826</u>	<u>123,006</u>
Sub Total	<u>574,787</u>	<u>237,893</u>
Annuity Reserve Fund:		
Annuities Paid	998,937	930,440
Option B Refunds	<u>0</u>	<u>84,529</u>
Sub Total	<u>998,937</u>	<u>1,014,969</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,367,025	4,213,770
Survivorship Payments	380,544	348,927
Ordinary Disability Payments	216,671	221,449
Accidental Disability Payments	1,326,876	1,258,206
Accidental Death Payments	207,437	206,345
Section 101 Benefits	107,984	99,197
3 (8) (c) Reimbursements to Other Systems	141,392	172,179
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,747,927</u>	<u>6,520,074</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,625	16,125
Salaries	133,975	104,591
Legal Expenses	8,735	4,920
Medical Expenses	<u>0</u>	<u>49</u>
Travel Expenses	2,454	500
Administrative Expenses	59,145	9,043
Furniture and Equipment	4,460	8,141
Management Fees	293,930	348,695
Custodial Fees	<u>0</u>	<u>18,600</u>
Consultant Fees	7,375	40,000
Rent Expenses	17,554	15,000
Service Contracts	16,258	26,231
Fiduciary Insurance	<u>5,293</u>	<u>5,133</u>
Sub Total	<u>564,804</u>	<u>597,028</u>
Total Disbursements	<u>\$8,886,455</u>	<u>\$8,369,963</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING	
	DECEMBER 31,	
	2008	2007
Investment Income Received From:		
Cash	\$9,459	\$45,780
Short Term Investments	0	0
Fixed Income	0	0
Equities	11,859	13,600
Pooled or Mutual Funds	2,123,845	1,685,885
Commission Recapture	0	104
Total Investment Income	<u>2,145,162</u>	<u>1,745,369</u>
Plus:		
Realized Gains	1,262,047	1,879,374
Unrealized Gains	3,545,682	8,236,360
Interest Due and Accrued - Current Year	0	2,618
Sub Total	<u>4,807,730</u>	<u>10,118,352</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(7,121,837)	0
Unrealized Loss	(21,443,988)	(5,932,744)
Interest Due and Accrued - Prior Year	(2,618)	(4,910)
Sub Total	<u>(28,568,442)</u>	<u>(5,937,654)</u>
Net Investment Income (Loss)	<u>(21,615,551)</u>	<u>5,926,067</u>
Income Required:		
Annuity Savings Fund	124,044	118,206
Annuity Reserve Fund	203,676	191,985
Military Service Fund	85	85
Expense Fund	564,804	597,028
Total Income Required	<u>892,609</u>	<u>907,303</u>
Net Investment Income (Loss)	<u>(21,615,551)</u>	<u>5,926,067</u>
Less: Total Income Required	<u>892,609</u>	<u>907,303</u>
Excess Income (Loss)		
To The Pension Reserve Fund	<u>(\$22,508,159)</u>	<u>\$5,018,764</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$363,017	0.7%
PRIT Cash Fund	75,293	0.1%
PRIT Core Fund	51,129,093	99.2%
Grand Total	<u>\$51,567,404</u>	<u>100.0%</u>

For the year ending December 31, 2008, the rate of return for the investments of the Gloucester Retirement System was -29.13%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Gloucester Retirement System averaged 1.41%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Gloucester Retirement System was 8.51%.

The composite rate of return for all retirement systems for the year ending December 31, 2008, was -28.61%. For the five-year period ending December 31, 2008, the composite rate of return for the investments of all retirement systems averaged 3.13%. For the 24-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 8.94%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Gloucester Retirement System has no supplementary investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Gloucester 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 \$708.60 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.

Cash is considered to be funds on deposit with banks and is available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership:

January 2, 2001

In order to be eligible for membership in the Gloucester Contributory Retirement System, permanent part-time or permanent full-time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full-time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts; filling in for vacation or sick time, does not count towards the twenty hour minimum requirement for membership.

April 12, 1994

- Permanent provisional employees are eligible to enter the system at once.
- Substitute employees at no time shall be allowed membership in the system.
- All temporary full time employees who are scheduled to work at least 20 hours per week for the calendar year are eligible for membership.

December 14, 1984

- All part-time employees who work at least 20 hours per week within a calendar year must become members of the Retirement System.
- Teacher's Aides or anybody doing work of a similar nature will not be admitted as members in the pension system until they have completed 6 months of employment.

Creditable Service:

April 23, 1997

Veterans' Service Buy-Back

1.) An eligible member may not receive additional creditable service until the member has paid into the Annuity Savings Fund of the System the total amount required by chapter 71 of the Acts of 1996, Veteran Buy-Back Law. This payment may be made "in one lump sum" or in installment payments. Installments may be spread evenly over a maximum period of five years with a minimum bi-weekly payment of \$20.00 There will be no interest charge on any outstanding balance.

2.) If a member has decided to purchase this additional creditable service and installments have already been paid, moneys are not refundable except upon the member's termination of service as provided in G.L. c. 32, § 10(4) and 11(1).

3.) The total Veteran's buy-back payment must be paid in full prior to the member's effective date of retirement. Creditable service would be prorated based upon any unpaid balance.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

April 12, 1994

A full year of creditable service for each school year employed for regularly employed full time school cafeteria employees shall be granted, subject to review at the time of retirement.

Buy-Backs Members requesting to make-up time toward creditable service must present to the board payroll records not W-2's to back up the period of time requested for creditable service.

Members who have worked under the CETA program may be allowed to make up this time toward creditable service.

December 14, 1984

An employee who averages 20 hours or more per week will be credited a proportionate share of a year's creditable service.

Miscellaneous:

March 16, 2005

Elected Member:

The Gloucester Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Gloucester Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board.

December 14, 1984

Public Records All medical and financial records pertaining to an employee in service or retired are not public records but are records of the retirement board.

Signature Requirement In order to insure the proper individual is receiving the benefits to which he/she is entitled, every retiree or beneficiary receiving a pension from the City of Gloucester is required to file his/her notarized signature with the Gloucester Retirement Board. Failure to return the specified card, properly filled out, within ninety days of postmark, will result in the suspension of benefits.

October 24, 2002

The Gloucester Retirement System 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 Stone Consulting, Inc. as of January 1, 2008.

The actuarial liability for active members was	\$61,788,806
The actuarial liability for inactive members was	1,299,752
The actuarial liability for retired members was	<u>65,722,557</u>
The total actuarial liability was	128,811,115
System assets as of that date were	<u>71,938,829</u>
The unfunded actuarial liability was	<u>\$56,872,286</u>
The ratio of system's assets to total actuarial liability was	55.8%
As of that date the total covered employee payroll was	\$22,787,184

The normal cost for employees on that date was 8.70% of payroll
 The normal cost for the employer was 5.10% of payroll

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

Investment Return: 7.87% per annum
 Rate of Salary Increase: 4.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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)
1/1/2008	\$71,938,829	\$128,811,115	\$56,872,286	55.8%	\$22,787,184	249.6%
1/1/2006	\$58,165,437	\$117,403,326	\$59,237,889	49.5%	\$20,903,152	283.4%
1/1/2004	\$52,051,078	\$105,751,987	\$53,700,909	49.2%	\$20,531,638	261.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	11	6	10	15	18	14	11	10	17	17
Ordinary Disability	0	0	0	1	1	1	2	1	0	0
Accidental Disability	2	2	1	2	2	0	2	3	2	2
Total Retirements	13	8	11	18	21	15	15	14	19	19
Total Retirees, Beneficiaries and Survivors	404	402	400	402	404	407	409	407	405	413
Total Active Members	572	577	590	577	550	538	545	544	558	542
Pension Payments										
Superannuation	\$2,713,300	\$2,742,496	\$2,918,003	\$3,155,438	\$3,355,699	\$3,798,743	\$4,066,957	\$4,173,895	\$4,213,770	\$4,367,025
Survivor/Beneficiary Payments	260,534	294,375	303,656	300,619	287,963	304,367	292,914	299,621	348,927	380,544
Ordinary Disability	157,932	150,848	158,928	171,092	178,651	192,860	217,322	233,425	221,449	216,671
Accidental Disability	1,120,841	1,123,062	1,108,629	1,115,372	1,135,449	1,156,795	1,178,582	1,382,273	1,258,206	1,326,876
Other	410,268	444,339	449,338	425,353	405,720	417,764	411,177	465,462	477,722	456,812
Total Payments for Year	<u>\$4,662,875</u>	<u>\$4,755,120</u>	<u>\$4,938,554</u>	<u>\$5,167,874</u>	<u>\$5,363,482</u>	<u>\$5,870,529</u>	<u>\$6,166,952</u>	<u>\$6,554,676</u>	<u>\$6,520,074</u>	<u>\$6,747,927</u>

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