

# PERAC AUDIT REPORT



Holyoke  
Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

February 19, 2010

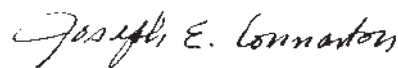
The Public Employee Retirement Administration Commission has completed an examination of the Holyoke Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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 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 Robert Madison 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. Appropriations:

The Geriatric Authority does not make timely appropriation payments. As of June 2009, the Geriatric Authority has paid \$26,308 against their total funding schedule of \$101,308 for FY 2008. In addition, the Geriatric Authority has not paid against their funding schedule for FY 2009 (\$101,493) and FY 2010 (\$105,553).

### **Recommendation:**

The Holyoke Retirement Board must ensure timely payments from all units. For the FY 2008, the FY 2009 and the FY 2010, the Geriatric Authority must be assessed the annual actuarial valuation rate of return interest of 8.25%.

### **Board Response:**

As the Geriatric Authority depends on state funds, the payment of its required retirement appropriations has been problematic. The Board has diligently pursued this issue with the past assistance of PERAC. In 2009, the Board referred the matter to its counsel for review and further action. The Board hopes to resolve this issue without the need for litigation.

## 2. Cash:

- A. The retiree payroll reconciliation presented by the Treasurer's Office for the period ending December 31, 2008 contains unexplained adjustments. As noted in PERAC's follow-up letter for the prior audit period ending December 31, 2005, "The retiree payroll account used by the Treasurer's Office is also known as a 'Zero-Balance Account (ZBA)'. The ZBA is a checking account that maintains a zero balance. Just the necessary funds are transferred to cover checks to be paid. Funds are moved into and out of ZBA daily and at the close of a business day, the ZBA account is zero. And, at any given day, the Retirement System has a zero balance in their financial reports because all the funds are accounted for. However, adjustments such as outstanding checks, voided checks, fees, etc. must be analyzed and must be included in cash reconciliations. Adjustments go back to November 2005.
- B. The Holyoke Treasurers Office did not file the 2007 IRS form 945 (Annual Return of Withheld Federal Income Tax) on time. Consequently, the IRS levied a fine against the Holyoke Retirement System of \$9,594.46 plus \$100.00 of nonrefundable processing charges.

### **Recommendations:**

- A. Adjustments and reconciling items in the retiree payroll reconciliation were not adequately explained for two consecutive audits. We recommend that the Holyoke Retirement Board hire an independent vendor to work with the City Treasurers Office and the Bank to review cash and report the results to the Board.
- B. The City Treasurer's Office is the custodian of the retirement system's funds according to G.L. c. 32, § 23 (2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform reconciliations as well as required government reporting such as IRS form 945. The Board should consider following this issue closely in the future and verify that governmental obligations are being met.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **Board Response:**

- A. The Board is aware that the City Treasurer is the custodian of our funds. The City Treasurer has been instructed writing on many occasions prior to this audit to provide timely reconciliations. Subsequent to this audit, a new Treasurer has been elected. The Board will continue to remind this Treasurer of his obligation. Additionally, new bank accounts for checking and payroll have been opened and reconciliations have been timely. PERAC should explicitly state that this is not a weakness in the accounting procedures of the Board; it is an issue which lies entirely within the domain of the City Treasurer.
- B. The Board continues to follow this issue closely. The new Treasurer has also been made aware of this issue.

### **3. Investment Approvals:**

The Holyoke Retirement Board funded an investment in July, 2008, in the State Street Global Advisors' SPDR Trust Series ETF prior to receiving notice from PERAC's Investment Director that all required documents were submitted.

### **Recommendation:**

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

### **Board Response:**

The Board does acknowledge that the purchase of the SPDR did take place before a formal communication was received from PERAC's Investment Director. Holyoke was informed by one of its managers, Voyageur Asset Management, that it was terminating the Voyageur Equity Style product at or about December 31, 2008. As a result and after consulting with Segal Advisors, the Board's consultant, it was determined that the most appropriate action would be to invest the proceeds of the liquidated Style portfolio into a S&P 500 SPDR until such time as a suitable re-allocation could take place. The Holyoke Board was under the impression that Segal Advisors had communicated the strategy of re-investing these funds to PERAC.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **4. Custodial Oversight:**

In violation of 840 CMR 16.04, the Holyoke Retirement Board went several months without having a custodian bank. Although the Board only invests in pooled funds rather than separately managed accounts, the Board did not inform PERAC that its custodian bank contract had been terminated and did not request authorization from PERAC to obtain or perform the custodial functions pertaining to those funds through other means.

### **Recommendation:**

The Board must comply with or request exemption from PERAC's Investment Regulations, 840 CMR 16.04, Use of Custodian Banks; Nominees; Securities Depository, which states in part, "Every board shall designate one or more banks or trust companies, organized under the laws of the Commonwealth, or of the United States, custodian of the securities and assets of the system, and shall designate as members of any nominee holding securities of the system any authorized employee of such custodian. All assets of the system shall be held by the custodian on behalf of the board."

### **Board Response:**

The HRB does acknowledge that it did go several months without informing PERAC that its custodial relationship had been terminated. The contract was terminated by Holyoke's service provider, State Street Bank, because they felt the relationship was not as economical as desired. Holyoke believed that given the fact that all the manager portfolios were pooled/commingled funds that it wasn't necessary for Holyoke to have a Custodial Bank. Once PERAC brought to the attention of the Board that PERAC regulations required a Custodian Bank, the Board quickly sought approval of a supplementary regulation exempting Holyoke from this requirement. PERAC approved the granting of this supplementary regulation on October 22, 2009.

### **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	2006
<b>Net Assets Available For Benefits:</b>			
Cash	\$791,048	\$130,902	\$260,311
Short Term Investments	4,272,465	2,743,563	4,131,386
Pooled Domestic Equity Funds	56,733,987	88,854,966	89,926,405
Pooled International Equity Funds	20,261,713	45,328,216	35,459,371
Pooled Domestic Fixed Income Funds	27,695,524	32,094,523	30,409,879
Pooled Real Estate Funds	13,116,974	13,798,930	5,200,383
Interest Due and Accrued	28,693	5,645	1,464
Accounts Receivable	1,875,160	4,146,556	10,847,712
Accounts Payable	(80,365)	(27,954)	(83,200)
<b>Total</b>	<u>\$124,695,199</u>	<u>\$187,075,346</u>	<u>\$176,153,710</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$45,345,793	\$43,514,709	\$41,243,867
Annuity Reserve Fund	15,653,576	15,510,148	15,818,736
Pension Fund	8,528,588	8,323,396	8,704,541
Military Service Fund	58,120	57,242	56,901
Expense Fund	0	0	0
Pension Reserve Fund	55,109,121	119,669,852	112,329,665
<b>Total</b>	<u>\$124,695,199</u>	<u>\$187,075,346</u>	<u>\$178,153,710</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 (2006)	\$38,712,063	\$16,531,659	\$6,827,941	\$57,716	\$0	\$98,795,650	\$160,925,030
Receipts	4,493,741	479,203	12,431,855	325	1,177,140	16,710,141	35,292,406
Interfund Transfers	(941,212)	940,569	3,177,909	(1,140)	0	(3,176,126)	0
Disbursements	(1,020,726)	(2,132,695)	(15,733,165)	0	(1,177,140)	0	(20,063,726)
Ending Balance (2006)	41,243,867	15,818,736	6,704,541	56,901	0	112,329,665	176,153,710
Receipts	4,820,757	461,319	12,462,395	341	1,422,698	12,317,861	31,485,371
Interfund Transfers	(1,407,162)	1,411,283	4,973,553	0	0	(4,977,674)	0
Disbursements	(1,142,753)	(2,181,190)	(15,817,093)	0	(1,422,698)	0	(20,563,735)
Ending Balance (2007)	43,514,709	15,510,148	8,323,396	57,242	0	119,669,852	187,075,346
Receipts	5,042,953	462,788	12,704,663	878	1,234,066	(60,989,146)	(41,543,797)
Interfund Transfers	(2,103,993)	2,049,470	3,626,108	0	0	(3,571,585)	0
Disbursements	(1,107,875)	(2,368,830)	(16,125,579)	0	(1,234,066)	0	(20,836,350)
Ending Balance (2008)	<u>\$45,345,793</u>	<u>\$15,653,576</u>	<u>\$8,528,588</u>	<u>\$58,120</u>	<u>\$0</u>	<u>\$55,109,121</u>	<u>\$124,695,199</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,668,797	\$4,450,332	\$4,207,197
Transfers from Other Systems	30,012	77,227	49,026
Member Make Up Payments and Re-deposits	29,065	30,203	9,319
Member Payments from Rollovers	66,345	23,802	2,187
Investment Income Credited to Member Accounts	<u>248,733</u>	<u>239,193</u>	<u>226,013</u>
Sub Total	<u>5,042,953</u>	<u>4,820,757</u>	<u>4,493,741</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>462,788</u>	<u>461,319</u>	<u>479,203</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	139,442	135,225	133,577
Pension Fund Appropriation	<u>12,073,533</u>	<u>11,783,144</u>	<u>11,704,521</u>
Sub Total	<u>12,704,663</u>	<u>12,462,395</u>	<u>12,431,855</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	535	0	0
Investment Income Credited to the Military Service Fund	<u>343</u>	<u>341</u>	<u>325</u>
Sub Total	<u>878</u>	<u>341</u>	<u>325</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,234,066</u>	<u>1,422,698</u>	<u>1,177,140</u>
Sub Total	<u>1,234,066</u>	<u>1,422,698</u>	<u>1,177,140</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	93,799	20,192	70,551
Interest Not Refunded	8,741	7,316	5,325
Miscellaneous Income	37,499	8,114	70
Excess Investment Income (Loss)	<u>(61,129,185)</u>	<u>12,282,237</u>	<u>16,634,195</u>
Sub Total	<u>(60,989,146)</u>	<u>12,317,861</u>	<u>16,710,141</u>
<b>Total Receipts</b>	<u>(\$41,543,797)</u>	<u>\$31,485,371</u>	<u>\$35,292,406</u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$796,805	\$924,837	\$709,416
Transfers to Other Systems	<u>311,070</u>	<u>217,915</u>	<u>311,310</u>
Sub Total	<u>1,107,875</u>	<u>1,142,753</u>	<u>1,020,726</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,232,950	2,124,321	2,068,366
Option B Refunds	<u>135,880</u>	<u>56,869</u>	<u>64,329</u>
Sub Total	<u>2,368,830</u>	<u>2,181,190</u>	<u>2,132,695</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	12,412,605	12,181,189	12,062,049
Survivorship Payments	337,057	304,746	309,486
Ordinary Disability Payments	176,930	132,888	142,459
Accidental Disability Payments	1,927,924	1,798,095	1,853,698
Accidental Death Payments	853,065	812,252	843,152
Section 101 Benefits	155,539	164,704	154,598
3 (8) (c) Reimbursements to Other Systems	<u>262,469</u>	<u>423,220</u>	<u>367,723</u>
Sub Total	<u>16,125,589</u>	<u>15,817,093</u>	<u>15,733,165</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	12,000	11,500	11,750
Salaries	195,027	191,549	180,889
Legal Expenses	22,925	21,000	17,376
Travel Expenses	17,565	15,037	17,121
Administrative Expenses	30,230	18,368	18,864
Management Fees	844,366	1,006,006	799,762
Custodial Fees	3,233	1,997	34,208
Consultant Fees	69,265	97,820	69,300
Service Contracts	27,205	47,550	17,046
Fiduciary Insurance	<u>12,250</u>	<u>11,872</u>	<u>10,824</u>
Sub Total	<u>1,234,066</u>	<u>1,422,698</u>	<u>1,177,140</u>
<b>Total Disbursements</b>	<b><u>\$20,836,360</u></b>	<b><u>\$20,563,735</u></b>	<b><u>\$20,063,726</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Investment Income Received From:</b>			
Cash	\$36,565	\$16,374	\$17,417
Short Term Investments	45,699	181,710	117,410
Pooled or Mutual Funds	3,515,012	3,369,539	3,879,797
Commission Recapture	<u>1,874</u>	<u>6,819</u>	<u>7,482</u>
<b>Total Investment Income</b>	<u>3,599,150</u>	<u>3,574,442</u>	<u>4,022,106</u>
<b>Plus:</b>			
Realized Gains	7,188,285	10,189,901	6,272,182
Unrealized Gains	16,055,760	24,847,592	22,502,799
Interest Due and Accrued - Current Year	<u>28,693</u>	<u>5,645</u>	<u>1,464</u>
Sub Total	<u>23,272,737</u>	<u>35,043,138</u>	<u>28,776,445</u>
<b>Less:</b>			
Realized Loss	(9,255,997)	(970,503)	(2,518,011)
Unrealized Loss	(76,793,500)	(23,239,825)	(11,759,833)
Interest Due and Accrued - Prior Year	<u>(5,645)</u>	<u>(1,464)</u>	<u>(3,830)</u>
Sub Total	<u>(86,055,142)</u>	<u>(24,211,791)</u>	<u>(14,281,675)</u>
<b>Net Investment Income (Loss)</b>	<u>(59,183,255)</u>	<u>14,405,789</u>	<u>18,516,876</u>
<b>Income Required:</b>			
Annuity Savings Fund	248,733	239,193	226,013
Annuity Reserve Fund	462,788	461,319	479,203
Military Service Fund	343	341	325
Expense Fund	<u>1,234,066</u>	<u>1,422,698</u>	<u>1,177,140</u>
<b>Total Income Required</b>	<u>1,945,930</u>	<u>2,123,551</u>	<u>1,882,681</u>
Net Investment Income (Loss)	<u>(59,183,255)</u>	<u>14,405,789</u>	<u>18,516,876</u>
Less: Total Income Required	<u>1,945,930</u>	<u>2,123,551</u>	<u>1,882,681</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$61,129,185)</u>	<u>\$12,282,237</u>	<u>\$16,634,195</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$791,048	0.6%	100%
Short Term	4,272,465	3.5%	100%
Pooled Domestic Equity Funds	56,733,987	46.2%	100%
Pooled International Equity Funds	20,261,713	16.5%	100%
Pooled Domestic Fixed Income Funds	27,695,524	22.5%	100%
Pooled Real Estate Funds	<u>13,116,974</u>	<u>10.7%</u>	<u>100%</u>
<b>Grand Total</b>	<b><u>\$122,871,711</u></b>	<b><u>100.0%</u></b>	<b>100%</b>

For the year ending December 31, 2008, the rate of return for the investments of the Holyoke Retirement System was -32.51%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Holyoke Retirement System averaged -1.23%. 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 Holyoke Retirement System was 8.40%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

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

### June 27, 2007

16.08 The Holyoke Retirement Board is authorized to invest in the State Street Global Advisors Russell 1000 Growth Index Fund on a temporary basis. This investment will be made with the liquidated proceeds of Voyageur Asset Management's Large Cap Growth Fund. After an extended period on the Board's "watch list", the Board has voted to terminate this fund, which had been run by Freedom Capital Management prior to that firm's acquisition by Voyageur, for performance reasons. After considering other possible vendors, the Board's consultant recommended the SSgA fund on the basis of its low cost and liquidity advantages. This temporary authorization extends to October 31, 2007.

### March 2, 2007

16.06 The Holyoke Retirement Board is authorized to invest in the Fidelity Real Estate Growth Fund III, now run under the umbrella of Pyramis Global Advisors Trust Company. The Board has been a satisfied investor in a predecessor Fidelity Real Estate Growth Fund, and the strategy and the portfolio management team are essentially the same. The Board has received over 100% of its original investment back from Fidelity (Pyramis) and is pursuing this investment in order to maintain its allocation to real estate. The manager has submitted the required regulatory documents.

### February 14, 2007

17.03 Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Holyoke Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

### February 13, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Holyoke Retirement Board may invest funds of the Retirement System (the "System") in the fund known as INVESCO Core Real Estate USA, LLC (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

July 18, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to make a modest modification to its domestic equity management mandates with Freedom Capital Management. The Board already has large cap value, large cap growth, and “equity style” mandates with Freedom Capital Management and has voted to make an initial investment in Freedom Capital Management’s Style Weighted Concentrated Fund. This investment will allow the Board to meet its asset allocation target for large cap equities. In this new fund, which has the S&P 500 as its benchmark, Freedom Capital Management will select its best ideas on both growth and value stocks out of the large cap universe in which it currently operates.

January 11, 2002

16.08 In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its fixed income mandate with Freedom Capital Management. First, the account is changing from a separate account to a commingled fund. Second, the mandate is being modified from Core to Core Plus. The commingled fund is the Freedom Capital Core Plus Fixed Income Fund.

August 8, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its large cap equity mandate with Freedom Capital Management by transferring the value portion of the account from a separately managed fund to a commingled fund, the Freedom Large Cap Value Fund. There is no change in investment strategy or benchmark and the modification is expected to result in lower costs to the Holyoke Retirement Board.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Holyoke 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.

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

#### October 1, 2002

1. A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked, provided the member works the number of hours required by the position.
2. . A member employed on a part-time basis who becomes full-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.
3. . A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

#### July 1, 1997

Any full-time employee, who is a member of the Holyoke Contributory Retirement System, is eligible to purchase previous seasonal, temporary or provisional service rendered for any governmental unit belonging to the Holyoke Retirement System.

#### October 7, 1986

“Teacher Aides who work a minimum of Twenty (20) hours per week and are under the age of 65, shall become members of the Holyoke Retirement System.”

#### March 11, 1986

1. Unless otherwise specified employees must work twenty (20) hours per week to be eligible for membership.
2. Employees of the Holyoke Geriatric Authority must work six (6) months before they are eligible for membership. Once they become members they may purchase this other service. (Repealed January 3, 1992)
3. Employees that have worked under the CETA program or Teacher Aides are not eligible for membership in the Holyoke Retirement System; however, if the employee gains employment in any other qualified position; they may buy back this other time.
4. Section 90C and 90D adjustments shall be granted as of July 1 of each year in lieu of COLA's.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2007.

The actuarial liability for active members was	\$113,081,759
The actuarial liability for inactive members was	2,080,293
The actuarial liability for retired members was	<u>150,525,953</u>
The total actuarial liability was	265,688,005
System assets as of that date were (actuarial value)	<u>175,326,173</u>
The unfunded actuarial liability was	<u>\$90,361,832</u>
The ratio of system's assets to total actuarial liability was	66.0%
As of that date the total covered employee payroll was	\$49,762,976

The normal cost for employees on that date was 8.7% of payroll

The normal cost for the employer was 4.4% of payroll

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

Investment Return: 8.25% per annum  
 Rate of Salary Increase: 4.00% per annum 2007-10; varies 4.75% - 5.25% after 2011

#### 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	\$175,326,173	\$265,688,005	\$90,361,832	66.0%	\$49,762,976	181.6%
1/1/2005	\$154,649,632	\$248,324,816	\$93,675,184	62.3%	\$47,514,976	197.1%
1/1/2003	\$147,834,259	\$218,195,543	\$70,361,284	67.8%	\$45,373,511	155.1%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Retirement in Past Years</b>										
Superannuation	25	39	31	24	69	59	18	16	25	27
Ordinary Disability	0	1	2	0	0	2	1	1	1	2
Accidental Disability	2	1	4	6	4	5	2	1	6	5
<b>Total Retirements</b>	27	41	37	30	73	66	21	18	32	34
Total Retirees, Beneficiaries and Survivors	861	861	872	875	913	947	931	916	904	902
Total Active Members	1,366	1,407	1,415	1,429	1,332	1,329	1,305	1,293	1,254	1,237
<b>Pension Payments</b>										
Superannuation	\$7,785,225	\$8,300,341	\$8,701,598	\$9,243,121	\$9,990,873	\$11,595,317	\$11,940,882	\$12,062,049	\$12,181,189	\$12,412,605
Survivor/Beneficiary Payments	274,822	279,215	295,685	353,185	349,382	330,151	313,551	309,486	304,746	337,057
Ordinary Disability	88,929	91,477	114,201	128,543	110,065	149,065	138,254	142,459	132,888	176,930
Accidental Disability	1,312,278	1,284,414	1,433,083	1,523,112	1,631,501	1,718,570	1,722,438	1,853,698	1,798,095	1,927,924
Other	725,346	804,343	882,571	947,306	926,985	936,700	957,994	1,365,473	1,400,176	1,271,062
<b>Total Payments for Year</b>	<u>\$10,186,599</u>	<u>\$10,759,790</u>	<u>\$11,427,137</u>	<u>\$12,195,267</u>	<u>\$13,008,806</u>	<u>\$14,729,803</u>	<u>\$15,073,119</u>	<u>\$15,733,165</u>	<u>\$15,817,093</u>	<u>\$16,125,579</u>

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