

PERAC AUDIT REPORT



Leominster
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	21
Note 5 - Actuarial Valuation and Assumptions.....	22
Note 6 - Membership Exhibit.....	23

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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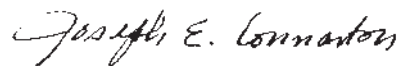
July 13, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Leominster Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners Scott Henderson, Kimberly Clairemont and James Tivnan 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. Regular Compensation

PERAC auditors inspected a payroll register report to determine that the correct contribution rates are being calculated, that the additional 2% deduction is withheld from those members who make over \$30,000 on an annualized basis, and were hired after January 1, 1979 and to confirm compliance with 840 CMR 15.03. The following pay types were incorrectly excluded from retirement deductions.

- The DPW utilizes a form of standby pay for on-call emergency purposes. This pay is regularly distributed and rotated among qualified employees.
- The Leominster Housing Authority makes a weekly “fringe tax” payment for being on call after normal hours, which is rotated regularly among several employees. If the member is called in to work, a portion of the on-call amount is converted to overtime pay, depending on the time actually worked.
- An assignment within the police department was determined to carry a premium based on a “specialist” classification. The specific qualifications were not identified.

All of the above payments would fall within the requirements of Chapter 21 of the Acts of 2009 which states, "...compensation received exclusively as wages by an employee for services performed..." and PERAC Regulation 840 CMR 15.03 that defined "wages" as "salary and other base compensation....pre-determined, non-discretionary, guaranteed payments....because of the character of the work". Portions of these payments that are converted to overtime are not subject to retirement deductions.

Recommendation: The Board must instruct the City payroll officer (DPW; Police) as well as the Leominster Housing Authority to begin taking deductions from all pay types that clearly fit the definition of regular compensation. The deductions must be at the same rate as the members' other compensation plus the additional 2%, if applicable. Deductions should commence as soon as possible taking into consideration the effective date of CMR 15.03, as revised, July 1, 2010.

In the future, the Retirement Board should be provided with a complete description of all new pay types including the specific purpose for and the timing of when these payments are distributed. The Board would then make the final determination of whether any pay type qualifies as regular compensation for retirement purposes.

Board Response:

Please be advised that we have informed the necessary departments that the deductions for all pay types that clearly fit the definition of regular compensation according to PERAC Regulation 840 CMR 15.03 and Chapter 21 of the Acts of 2009 will now have the proper deductions plus the additional 2%, if applicable, taken for retirement purposes. We have instructed the departments to place retirement eligible payments into regular salaries and wages accounts. These stipends were previously paid out of overtime type accounts.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Bank Account Activity

The Leominster Retirement Board has three active bank accounts at Bank of America. One account is used primarily for the System's receipts, another is used for all the warrant and general operations activity, and the third is used for the retiree payroll. A transfer is made from the depository account to fund each month's payroll and warrant activity. The activity for all three accounts is recorded to a single general ledger account.

Recommendation: Although the combined cash activity reported on the general ledger was accurate, sound internal financial control practices would dictate that the three bank accounts should be assigned separate general ledger account numbers. This is a common practice that initiates and maintains an integral financial control. Transactions for each bank account must reflect the source and destination of all cash flows with separate accounting entries.

Board Response:

As recommended, the Leominster Contributory Retirement Board has assigned separate general ledger account numbers for the three bank accounts, along with the source and destination of all cash flows into the separate accounting entries. It should be noted that the City has maintained one cash account since its inception. The City will implement this recommendation going forward.

3. Retiree Benefit Calculations

An inspection of recent retirees' folders revealed the salary used to calculate the benefits is "backed into" from the contributions attributed to the member. Actual payroll records are not referenced when calculating a member's high three-year average salary. The partial year is estimated by using the annual deductions, dividing by 12, and then multiplying by the number of months necessary to come up with three years of service. (For example, a member who retires March 1, 2010 would have salary consisting of the 2 months in 2010, all of 2009, all of 2008 and 10 months in 2007. These ten months would be calculated using the formula described above.)

Recommendation: The system should obtain and reference actual payroll records when calculating retirement benefits. This will ensure a more precise basis for the partial year. It will also serve to confirm that retirement contributions are being withheld accurately on an on-going basis.

Board Response:

In regards to retirement calculations, actual payroll records are now referenced when calculating a member's three year average salary as recommended in this report. This will confirm that the retirement contributions are being withheld accurately on an on-going basis. The City has been operating with a waiver of submitting superannuation retirement calculations for retirements with full approval from Public Employee Retirement Administration Commission utilizing the current methodology. The City will implement this recommendation going forward.

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,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	\$571,486	\$579,776	\$2,213
Short Term Investments	0	0	578,814
Pooled Domestic Equity Funds	5,473,406	4,349,839	3,210,760
Pooled International Equity Funds	12,612,154	11,820,573.67	8,845,778
Pooled Global Equity Funds	24,324,778	21,855,255	18,064,244
Pooled Domestic Fixed Income Funds	4,305,070	7,050,977	7,762,322
Pooled Alternative Investment Funds	5,571,532	5,241,897	4,666,426
PRIT Cash Fund	90,093	94	1,519,560
PRIT Core Fund	48,268,976	38,037,366	27,463,604
Interest Due and Accrued	20	2	60
Total	<u>\$101,217,515</u>	<u>\$88,935,779</u>	<u>\$72,113,780</u>
Fund Balances:			
Annuity Savings Fund	\$23,289,022	\$22,718,203	\$21,500,189
Annuity Reserve Fund	6,816,274	6,490,298	6,530,243
Pension Fund	10,428,505	9,568,356	8,387,761
Military Service Fund	34,648	34,545	34,373
Expense Fund	0	0	0
Pension Reserve Fund	60,649,066	50,124,377	35,661,214
Total	<u>\$101,217,515</u>	<u>\$88,935,779</u>	<u>\$72,113,780</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)	\$20,381,882	\$6,572,194	\$6,985,377	\$29,731	\$0	\$65,034,134	\$99,003,318
Receipts	2,446,132	191,668	7,427,130	26,348	382,890	(29,481,423)	(19,007,255)
Interfund Transfers	(788,747)	680,244	0	0	0	108,503	0
Disbursements	(539,078)	(913,863)	(6,024,746)	(21,706)	(382,890)	0	(7,882,283)
Ending Balance (2008)	21,500,189	6,530,243	8,387,761	34,373	0	35,661,214	72,113,780
Receipts	2,494,333	193,447	7,421,691	172	417,579	14,451,739	24,978,961
Interfund Transfers	(794,500)	783,076	0	0	0	11,424	(0)
Disbursements	(481,819)	(1,016,468)	(6,241,095)	0	(417,579)	0	(8,156,961)
Ending Balance (2009)	22,718,203	6,490,298	9,568,356	34,545	0	50,124,377	88,935,779
Receipts	2,278,921	202,599	7,484,432	104	447,469	10,528,595	20,942,119
Interfund Transfers	(1,202,116)	1,206,022	0	0	0	(3,906)	0
Disbursements	(505,987)	(1,082,645)	(6,624,283)	0	(447,469)	0	(8,660,384)
Ending Balance (2010)	<u>\$23,289,022</u>	<u>\$6,816,274</u>	<u>\$10,428,505</u>	<u>\$34,648</u>	<u>\$0</u>	<u>\$60,649,066</u>	<u>\$101,217,515</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$2,090,244	\$2,237,519	\$2,195,163
Transfers from Other Systems	95,964	101,733	75,132
Member Make Up Payments and Re-deposits	20,765	50,266	61,171
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>71,948</u>	<u>104,815</u>	<u>114,666</u>
Sub Total	<u>2,278,921</u>	<u>2,494,333</u>	<u>2,446,132</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>202,599</u>	<u>193,447</u>	<u>191,668</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	133,683	132,907	129,339
	194,791	207,543	217,179
Pension Fund Appropriation	7,155,958	7,075,241	7,071,586
Settlement of Workers' Compensation Claims	<u>0</u>	<u>6,000</u>	<u>9,026</u>
Sub Total	<u>7,484,432</u>	<u>7,421,691</u>	<u>7,427,130</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	26,143
Investment Income Credited to the Military Service Fund	<u>104</u>	<u>172</u>	<u>205</u>
Sub Total	<u>104</u>	<u>172</u>	<u>26,348</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>447,469</u>	<u>417,579</u>	<u>382,890</u>
Sub Total	<u>447,469</u>	<u>417,579</u>	<u>382,890</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	79,455	75,921	99,044
Pension Reserve Appropriation	0	0	367
Interest Not Refunded	265	1,743	1,022
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>10,448,875</u>	<u>14,374,076</u>	<u>(29,581,856)</u>
Sub Total	<u>10,528,595</u>	<u>14,451,739</u>	<u>(29,481,423)</u>
Total Receipts, Net	<u>\$20,942,119</u>	<u>\$24,978,961</u>	<u>(\$19,007,255)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$337,977	\$156,717	\$97,068
Transfers to Other Systems	<u>168,010</u>	<u>325,103</u>	<u>442,009</u>
Sub Total	<u>505,987</u>	<u>481,819</u>	<u>539,078</u>
Annuity Reserve Fund:			
Annuities Paid	1,043,104	963,997	913,863
Option B Refunds	<u>39,541</u>	<u>52,470</u>	<u>0</u>
Sub Total	<u>1,082,645</u>	<u>1,016,468</u>	<u>913,863</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,678,594	4,179,799	3,944,823
Survivorship Payments	123,217	279,189	276,431
Ordinary Disability Payments	41,881	41,396	40,429
Accidental Disability Payments	1,117,863	1,090,829	1,076,384
Accidental Death Payments	202,031	179,042	207,190
Section 101 Benefits	43,313	78,862	39,838
3 (8) (c) Reimbursements to Other Systems	228,808	189,283	222,461
State Reimbursable COLA's Paid	168,421	182,541	197,033
Chapter 389 Beneficiary Increase Paid	<u>20,155</u>	<u>20,155</u>	<u>20,155</u>
Sub Total	<u>6,624,283</u>	<u>6,241,095</u>	<u>6,024,746</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>21,706</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	76,719	75,711	67,495
Legal Expenses	0	0	0
Travel Expenses	121	0	1,504
Administrative Expenses	15,595	16,767	3,210
Professional Services	0	0	0
Education and Training	0	0	0
Furniture and Equipment	1,255	0	11,440
Management Fees	295,915	276,115	256,029
Custodial Fees	27,500	28,294	13,622
Consultant Fees	9,200	0	9,200
Service Contracts	0	0	0
Fiduciary Insurance	<u>6,164</u>	<u>5,693</u>	<u>5,390</u>
Sub Total	<u>447,469</u>	<u>417,579</u>	<u>382,890</u>
Total Disbursements	<u>\$8,660,384</u>	<u>\$8,156,961</u>	<u>\$7,882,283</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$22,012	\$1,568	\$8,885
Short Term Investments	0	15,965	30,862
Fixed Income	202,815	292,345	598,767
Equities	326,031	297,963	1,161,124
Pooled or Mutual Funds	1,625,015	1,407,741	1,668,165
Commission Recapture	0	0	0
Total Investment Income	<u>2,175,872</u>	<u>2,015,582</u>	<u>3,467,803</u>
Plus:			
Realized Gains	1,685,284	1,049,016	1,404,815
Unrealized Gains	21,773,877	24,304,977	6,921,581
Interest Due and Accrued - Current Year	20	2	60
Sub Total	<u>23,459,181</u>	<u>25,353,995</u>	<u>8,326,457</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(40,235)	(2,892,964)	(3,840,765)
Unrealized Loss	(14,423,821)	(9,386,464)	(36,845,469)
Interest Due and Accrued - Prior Year	(2)	(60)	(452)
Sub Total	<u>(14,464,058)</u>	<u>(12,279,489)</u>	<u>(40,686,686)</u>
Net Investment Income (Loss)	<u>11,170,995</u>	<u>15,090,089</u>	<u>(28,892,426)</u>
Income Required:			
Annuity Savings Fund	71,948	104,815	114,667
Annuity Reserve Fund	202,599	193,447	191,668
Military Service Fund	104	172	205
Expense Fund	447,469	417,579	382,890
Total Income Required	<u>722,120</u>	<u>716,013</u>	<u>689,430</u>
Net Investment Income (Loss)	<u>11,170,995</u>	<u>15,090,089</u>	<u>(28,892,426)</u>
Less: Total Income Required	722,120	716,013	689,430
Excess Income (Loss) To The Pension Reserve Fund	<u>\$10,448,875</u>	<u>\$14,374,076</u>	<u>(\$29,581,856)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$571,486	0.6%
Pooled Domestic Equity Funds	5,473,406	5.4%
Pooled International Equity Funds	12,612,154	12.5%
Pooled Global Equity Funds	24,324,778	24.0%
Pooled Domestic Fixed Income Funds	4,305,070	4.3%
Pooled Alternative Investment Funds	5,571,532	5.5%
PRIT Cash Fund	90,093	0.1%
PRIT Core Fund	<u>48,268,976</u>	<u>47.7%</u>
Grand Total	<u>\$101,217,494</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Leominster Retirement System was 12.14%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Leominster Retirement System averaged 4.49%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Leominster Retirement System was 8.55%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 13.67%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 4.49%. For the 26-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 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Leominster Retirement System has not submitted any supplementary investment regulations for approval to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

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, will receive 3% interest on their contributions if they voluntarily terminate their service.

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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

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, with the local system retaining the option to increase this base in increments of \$1,000. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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 accounts are 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 closely monitors the implementation and performance of their investment strategy and measures 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 or loss 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 Leominster Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

October 8, 2008

Membership:

Call Firefighters and Reserved Police Officers are not eligible to become Members of the Leominster Contributory Retirement System.

December 14, 1984

All permanent full time employees – working 20 or more hours per week – must become members of the Retirement Board upon the effective date of their employment.

December 14, 1984

The Mayor and City Council may elect to become members of the Retirement System.

October 8, 2008

Creditable Service:

Buy backs — the Retirement Board will allow creditable service for all creditable service that is rendered to him/her as an employee in any governmental unit after becoming a member.

January 6, 1995

Regular Compensation:

Both the Police and Fire Departments will receive compensation towards their Annuity Savings for clothing allowance, CPR, Suicide and Breathalyzer Operator pay.

Travel Regulations:

The Leominster 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 or at <http://www.mass.gov/perac/05travelreg/leominstertravelreg.html>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: John J. Richard, Chairperson

Appointed Member: David R. LaPlante Term Expires: 11/17/2011

Elected Member: Paul R. Doig Term Expires: 1/01/2012

Elected Member: John F. Picone Term Expires: 6/03/2013

Appointed Member: Aldo Mazzaferro Term Expires: 1/03/2012

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

Treasurer - Custodian:)	Coverage provided to a limit of \$50,000,000
Ex-officio Member:)	under a master MACRS sponsored policy issued
Elected Members:)	through a layered program with Travelers,
Appointed Members:)	National Union Fire, and Arch. Separate fidelity
Staff Employees:)	coverage pertaining to ERISA/Crime to a limit of \$1,000,000 issued through Travelers Casualty and Surety Company, deductible \$10,000.

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, 2010.

The actuarial liability for active members was	\$62,603,366
The actuarial liability for retired and inactive members was	<u>64,444,017</u>
The total actuarial liability was	127,047,383
System assets as of that date were	<u>88,935,779</u>
The unfunded actuarial liability was	<u>\$38,111,604</u>
The ratio of system's assets to total actuarial liability was	70.0%
As of that date the total covered employee payroll was	\$24,404,478

The normal cost for employees on that date was 8.9% of payroll
 The normal cost for the employer was 3.8% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010 (,000 omitted)

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)
1/1/2006	\$75,143	\$101,959	\$26,816	73.7%	\$22,109	121.3%
1/1/2007	\$88,606	\$111,752	\$23,146	79.3%	\$22,775	101.6%
1/1/2008	\$99,005	\$118,516	\$19,511	83.5%	\$23,530	82.9%
1/1/2010	\$88,936	\$127,047	\$38,111	70.0%	\$24,404	156.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	6	17	19	15	11	17	16	10	13	18
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	1	2	0	1	2	3	0	1
Total Retirements	6	17	20	17	11	18	18	13	13	19
Total Retirees, Beneficiaries and Survivors	358	362	370	374	362	367	371	383	372	400
Total Active Members	630	607	615	623	678	638	635	642	613	588
Pension Payments										
Superannuation	\$2,516,769	\$2,695,790	\$2,973,642	\$3,308,989	\$3,530,597	\$3,714,550	\$3,920,702	\$3,944,823	\$4,179,799	\$4,678,594
Survivor/Beneficiary Payments	160,169	154,590	156,354	174,927	185,930	130,831	228,391	276,431	279,189	123,217
Ordinary Disability	31,077	38,169	33,066	33,999	34,939	35,885	36,837	40,429	41,396	41,881
Accidental Disability	689,606	693,112	708,303	811,802	838,926	996,014	922,138	1,076,384	1,090,829	1,117,863
Other	619,599	593,603	601,812	581,169	550,574	633,110	573,278	686,678	649,883	662,728
Total Payments for Year	<u>\$4,017,220</u>	<u>\$4,175,264</u>	<u>\$4,473,177</u>	<u>\$4,910,886</u>	<u>\$5,140,966</u>	<u>\$5,510,390</u>	<u>\$5,681,346</u>	<u>\$6,024,746</u>	<u>\$6,241,095</u>	<u>\$6,624,283</u>

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