

# PERAC AUDIT REPORT



Massachusetts Port Authority Employees'  
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

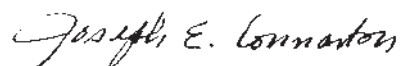
The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Port Authority Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with 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 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 examiners Carol M. Niemira, Scott Henderson, and James Sweeney 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. Board Member Attendance and System Administration:**

A Board member was not physically present and participated by conference call for 46% and 27% of meetings in 2006 and 2007 respectively. Through August 2009 this member has missed 38% of Board meetings. Participation in Board meetings via conference call is not considered member attendance for the purpose of determining absentee rates under this finding. The result is an attendance rate for this Board member well below the seventy-five percent minimum considered reasonable for each of the years evaluated.

At a Board meeting on July 31, 2007 the same member participated by speaker phone. The member was reported as voting favorably on a three to two vote approving a pending disability. Corporal presence is required to be recorded as attending a meeting and to vote on matters before the Board.

**Recommendation:** Attendance at Board meetings is an obligation that must be fulfilled by all Board members. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. Participation by conference call may be permitted; however, it does not qualify toward a quorum, nor is voting by conference call allowed. It is the Board's responsibility to counsel members who do not regularly attend meetings. Relying on participation via conference call could compromise the Board's obligation to fulfill their fiduciary duties as trustees for the Retirement System.

The July 31, 2007 vote approving a disability application should be ratified by a majority of members present at an upcoming Board meeting.

#### **Board Response:**

The Massport Employees' Retirement System Board ("Board") disagrees with PERAC's finding on attendance and system administration. The board investigated the issue of phone participation at length with its legal counsel, as well as Massport's legal counsel, well before the PERAC audit, and concluded that there is no support for a corporal presence requirement in the Open Meeting Law or Chapter 32 under these circumstances. Moreover, for the relatively few meetings the Board Member in question was unable to attend in person, he received the full complement of Board meeting materials and agenda and was fully briefed and informed about pending matters before the Board in advance. He participated in discussions and deliberations of all matters, and provided valuable insight and perspective. There is certainly nothing about his participation in meetings by speaker-phone that compromised the Board's fiduciary obligation to System members.

Each Board member considers his role as a fiduciary to the System to be a paramount obligation. To this end, Board members carefully consider and investigate all matters pertaining to administration of the System. At no time has any Board member compromised his/her role as a Retirement System fiduciary.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### 2. **Membership**

PERAC auditors 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 members receive separate checks for vacation buyback. For the pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll department calculates the 2% exemption on \$30,000 annually based on each earnings payment rather than combining regular earnings.

**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. The payroll system should combine all earnings subject to retirement deductions for each member from all payroll sources. This would provide the proper basis for calculating the additional 2% deduction accurately and consistently.

**Board Response:**

The Board did not respond to this finding.

**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	\$193,934	\$458,874	\$2,447,453
Fixed Income Securities	0	0	0
Equities	10,587,135	29,915,087	32,224,785
Pooled Domestic Equity Funds	89,507,444	128,328,163	126,990,540
Pooled International Equity Funds	53,173,432	87,917,410	88,590,151
Pooled Domestic Fixed Income Funds	114,619,272	130,241,012	107,929,695
Pooled Alternative Investment Funds	16,336,664	14,576,071	9,579,549
Pooled Real Estate Funds	15,889,259	22,337,522	20,691,407
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	7,416	9,363	11,404
Accounts Receivable	441,724	700,458	1,983,186
Accounts Payable	(2,536,482)	(478,460)	(517,672)
<b>Total</b>	<u>\$298,219,797</u>	<u>\$414,005,502</u>	<u>\$389,930,498</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$85,718,726	\$80,485,537	\$75,435,437
Annuity Reserve Fund	19,400,332	17,958,575	17,547,682
Pension Fund	11,406,356	22,388,875	24,232,336
Military Service Fund	10,863	3,952	0
Expense Fund	0	0	0
Pension Reserve Fund	181,683,520	293,168,563	272,715,044
<b>Total</b>	<u>\$298,219,797</u>	<u>\$414,005,502</u>	<u>\$389,930,498</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)	\$71,566,015	\$16,054,687	\$6,266,835	\$0	\$0	\$248,003,381	\$341,890,918
Receipts	7,958,419	491,642	3,534,946	0	2,253,464	49,575,588	63,814,059
Interfund Transfers	(2,942,060)	2,805,985	25,000,000	0	0	(24,863,925)	0
Disbursements	(1,146,937)	(1,804,632)	(10,569,445)	0	(2,253,464)	0	(15,774,478)
Ending Balance (2006)	75,435,437	17,547,682	24,232,336	0	0	272,715,044	389,930,498
Receipts	8,593,258	524,130	1,419,828	3,952	2,490,138	28,059,365	41,090,670
Interfund Transfers	(2,297,069)	1,909,598	7,993,317	0	0	(7,605,846)	0
Disbursements	(1,246,089)	(2,022,834)	(11,256,606)	0	(2,490,138)	0	(17,015,667)
Ending Balance (2007)	80,485,537	17,958,575	22,388,875	3,952	0	293,168,563	414,005,502
Receipts	9,217,484	567,361	831,979	6,911	2,060,812	(111,696,679)	(99,012,132)
Interfund Transfers	(3,223,028)	3,017,411	(6,019)	0	0	211,636	(0)
Disbursements	(761,267)	(2,143,015)	(11,808,478)	0	(2,060,812)	0	(16,773,573)
Ending Balance (2008)	<u>\$85,718,726</u>	<u>\$19,400,332</u>	<u>\$11,406,356</u>	<u>\$10,863</u>	<u>\$0</u>	<u>\$181,683,520</u>	<u>\$298,219,797</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Members Deductions	\$7,957,621	\$7,500,708	\$7,033,370
Transfers from Other Systems	646,050	528,694	367,880
Member Make Up Payments and Re-deposits	28,526	30,814	57,246
Member Payments from Rollovers	115,393	91,038	82,194
Investment Income Credited to Member Accounts	<u>469,894</u>	<u>442,003</u>	<u>417,728</u>
Sub Total	<u>9,217,484</u>	<u>8,593,258</u>	<u>7,958,419</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>567,361</u>	<u>524,130</u>	<u>491,642</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	431,249	413,425	386,238
	0	0	0
Pension Fund Appropriation	<u>400,730</u>	<u>1,006,403</u>	<u>3,148,708</u>
Sub Total	<u>831,979</u>	<u>1,419,828</u>	<u>3,534,946</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	6,911	3,929	0
Investment Income Credited to the Military Service Fund	0	24	0
Sub Total	<u>6,911</u>	<u>3,952</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>2,060,812</u>	<u>2,490,138</u>	<u>2,253,464</u>
Sub Total	<u>2,060,812</u>	<u>2,490,138</u>	<u>2,253,464</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,930	14,771	12,931
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>(111,698,609)</u>	<u>28,044,594</u>	<u>49,562,657</u>
Sub Total	<u>(111,696,679)</u>	<u>28,059,365</u>	<u>49,575,588</u>
<b>Total Net Receipts</b>	<u>(\$99,012,132)</u>	<u>\$41,090,670</u>	<u>\$63,814,059</u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$413,242	\$706,118	\$953,611
Transfers to Other Systems	<u>348,025</u>	<u>539,970</u>	<u>193,325</u>
Sub Total	<u>761,267</u>	<u>1,246,089</u>	<u>1,146,937</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,143,015	1,934,391	1,780,317
Option B Refunds	<u>0</u>	<u>88,443</u>	<u>24,315</u>
Sub Total	<u>2,143,015</u>	<u>2,022,834</u>	<u>1,804,632</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	8,973,213	8,368,034	7,872,178
Survivorship Payments	1,037,531	993,802	995,316
Ordinary Disability Payments	144,842	210,118	147,440
Accidental Disability Payments	1,467,008	1,453,997	1,306,892
Accidental Death Payments	882	4,824	6,483
Section 101 Benefits	41,539	40,329	39,155
3 (8) (c) Reimbursements to Other Systems	143,463	185,502	201,981
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>11,808,478</u>	<u>11,256,606</u>	<u>10,569,445</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	15,000	15,000	15,000
Salaries	300,797	321,953	307,487
Legal Expenses	115,552	135,601	109,715
Medical Expenses	174	* (4,943)	385
Travel Expenses	22,241	15,044	16,546
Administrative Expenses	38,006	26,231	28,256
Furniture and Equipment	22,242	16,692	13,397
Management Fees	1,245,524	1,676,072	1,485,784
Custodial Fees	96,239	95,531	93,782
Consultant Fees	115,000	115,000	115,000
Rent Expenses	0	0	0
Service Contracts	90,037	77,956	68,113
Fiduciary Insurance	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,060,812</u>	<u>2,490,138</u>	<u>2,253,464</u>
<b>Total Disbursements</b>	<b><u>\$16,773,573</u></b>	<b><u>\$17,015,667</u></b>	<b><u>\$15,774,478</u></b>

\* Reimbursement from prior period expense

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Investment Income Received From:</b>			
Cash	\$18,718	\$64,445	\$479,915
Fixed Income	0	0	6,285,605
Equities	237,939	280,346	327,066
Pooled or Mutual Funds	14,130,834	12,736,570	6,910,171
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>14,387,491</u>	<u>13,081,361</u>	<u>14,002,757</u>
<b>Plus:</b>			
Realized Gains	1,467,933	5,909,575	5,514,453
Unrealized Gains	21,294,084	52,330,728	48,651,302
Interest Due and Accrued - Current Year	7,416	9,363	11,404
Sub Total	<u>22,769,433</u>	<u>58,249,667</u>	<u>54,177,158</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	(488,917)
Realized Loss	(4,249,797)	(576,167)	(1,048,983)
Unrealized Loss	(141,498,306)	(39,242,570)	(12,789,950)
Interest Due and Accrued - Prior Year	(9,363)	(11,404)	(1,126,574)
Sub Total	<u>(145,757,466)</u>	<u>(39,830,140)</u>	<u>(15,454,424)</u>
<b>Net Investment Income (Loss)</b>	<u>(108,600,542)</u>	<u>31,500,888</u>	<u>52,725,491</u>
<b>Income Required:</b>			
Annuity Savings Fund	469,894	442,003	417,728
Annuity Reserve Fund	567,361	524,130	491,642
Military Service Fund	0	24	0
Expense Fund	2,060,812	2,490,138	2,253,464
<b>Total Income Required</b>	<u>3,098,067</u>	<u>3,456,294</u>	<u>3,162,834</u>
Net Investment Income (Loss)	<u>(108,600,542)</u>	<u>31,500,888</u>	<u>52,725,491</u>
Less: Total Income Required	<u>3,098,067</u>	<u>3,456,294</u>	<u>3,162,834</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$111,698,609)</u>	<u>\$28,044,594</u>	<u>\$49,562,657</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$193,934	0.1%	5%
Equities	10,587,135	3.5%	28-48%
Pooled Domestic Equity Funds	89,507,444	29.8%	28-48%
Pooled International Equity Funds	53,173,432	17.7%	17-23%
Pooled Domestic Fixed Income Funds	114,619,272	38.2%	22-42%
Pooled Alternative Investment Funds	16,336,664	5.4%	10%
Pooled Real Estate Funds	15,889,259	5.3%	3-7%
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	0	0.0%	100%
<b>Grand Total</b>	<b><u>\$300,307,139</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2008, the rate of return for the investments of the Massachusetts Port Authority Employees' Retirement System was -26.57%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Massachusetts Port Authority Employees' Retirement System averaged 2.06%. For the 24-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 Massachusetts Port Authority Employees' Retirement System was 8.63%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Massachusetts Port Authority Employees' Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

May 7, 2009

16.08

In accordance with Investment Guideline 99-2, the Massachusetts Port Authority Employees' Retirement System is authorized to make a modest modification to its large cap equity index mandate with State Street Global Advisors. In order to achieve broader exposure within the asset class, the System is transferring from SSgA's S&P 500 Flagship Fund to its Russell 1000 Securities Lending Fund.

November 1, 2006

16.08

In accordance with Investment Guideline 99-2, the Massachusetts Port Authority Employees' Retirement System is authorized to make a modest modification to its core plus fixed income mandate with Wellington Trust Company. The overall strategy and benchmark are remaining the same, but the system is transferring its assets from an existing separate account to a commingled fund. The Core Bond Plus (Monthly Series) allows use of certain derivative instruments for risk management and other purposes consistent with the investment objective as well as greater flexibility in the use of below investment grade securities, currency exposure, and emerging market debt.

March 25, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, MPAERS is authorized to transfer its international equity mandate with Baring Asset Management from the Standard Active/Passive Non-Lending Fund B to the Full Active/Passive Equity (Lending) Fund G. The funds have the same portfolio management team and both are managed to the MSI-EAFE benchmark. The difference is that the current fund achieves its objective by investing in country-specific index funds while the new fund will also invest in sector-specific index funds. MPAERS has had a satisfactory relationship with Baring for over four years.

December 14, 2000

Self imposed restrictions on the Board's percentage of holdings in specific asset classes have been rescinded. Restrictions pertaining to real estate and alternative investments contained in 840 CMR 19.01 remain in effect.

September 20, 2000

16.08

The MPAERS may modify its fixed income investment mandate with Wellington Management Company from Core to Core Plus. The system has had a satisfactory existing relationship with Wellington. The Board believes that the greater flexibility and diversification achieved by allowing opportunistic limited investments in high yield and international fixed income securities will offer long-term benefits in portfolio returns. The portfolio manager, as well as the portfolio benchmark, will not change.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 14, 1999

16.08

The MPAERS may invest with Templeton Institutional Funds, Inc., Foreign Equity Series Primary Shares. This commingled fund has the same investment objectives and follows similar strategies as the separately managed mandate with Templeton, the proceeds of which will be liquidated and invested in the fund.

April 15, 1998 (not otherwise superseded by PERAC letter dated December 14, 2000)

20.06(2)

Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent as rated by one or more recognized bond-rating services.

20.06(4)

Fixed income holdings which are downgraded by one or more recognized rating Services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

20.06(10)

Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be Corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1).

April 18, 1997

Veterans' Service Buy- Back Regulations

Approval of regulations to implement purchases of veterans' service pursuant to chapter 71 of the acts of 1996.

May 29, 1996

ERI Regulations Approval of regulations to implement an Early Retirement Incentive program pursuant to section 49 of chapter 133 of the acts of 1992 as amended by chapter 5 of the acts of 1996.

November 9, 1995

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income for investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million, and
- (b) 0.5% of the value of the fund in exceed of \$5 million.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

16.02(4)

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

April 26, 1993

Regularly employed full-time employees shall receive one year of creditable service for each year of full-time employment as defined for the position.

November 12, 1992

Election Rules

Approval of revised supplementary rules for election of the second board member.

September 23, 1988

By-Laws of Board

Approval of by-laws pertaining to: powers and duties of the board; election or appointment of successors; compensation of board members; organization and meetings; maintenance and inspection of records; management of funds; actuarial valuation, etc.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Massachusetts Port Authority Employees' Retirement System member unit employees deemed eligible by the retirement board.

### 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.

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:**

Public Safety positions 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 Massachusetts Port Authority Employees' Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 21, 2009

By-Laws

The Board has adopted By-Laws of The Massachusetts Port Authority Employees' Retirement System under the provisions of G.L. c. 7, § 50.

Article I Retirement Board

Article II Organization and Meetings

Article III Maintenance and Inspection of Records

Article IV Management of Funds

Article V Actuarial Valuation

Article VI Fiscal Year

Article VII Amendment

Article VIII Controlling Effect of Provision of Law

Article IX Indemnification

(Text of regulation available upon written request.)

October 1, 2002

Creditable Service

In the event that a member claims creditable service pursuant to § 4(2)(c) for temporary or part-time service prior to the time that the member became a member of the system, the member shall submit such documentation as she or he has to verify said service. Service shall be granted equal to the period of service multiplied by a fraction, no greater than 1, the numerator of which is the actual number of hours of service performed in each week divided by the number of hours in a normal work week for the member's position. In the event that the member and/or the board are able to document the fact of such service and the status (full- or part-time) under which the member was employed but there are no records of the member's actual service performed, creditable service shall be given according to the member's status of record unless there is competent evidence that establishes that the actual service was different. For members first employed by the Authority after May 1, 1999, no such creditable service shall be allowed, unless within one year after becoming a member, the member has, pursuant to subsection 4(2)(a) of Chapter 32, filed a detailed statement of the service which he or she is claiming credit.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

October 11, 2001

Buyback of Vacation as Regular Compensation

1. Payments received by a member pursuant to the Authority's vacation policy buyback provisions shall be considered regular compensation for purposes of G.L. c. 32, § 1.
2. The Secretary-Treasurer of the Authority shall cause the annuity savings deductions provided for in G.L. c. 32, § 22(1)(b) to be made from all payments made to members pursuant to said vacation buyback policy.

Election of Board Members

7.07(3) ... No campaign paraphernalia or literature on behalf of any candidate will be delivered or distributed to voting members by the Retirement Board or its staff; provided, however that this shall not preclude the Board from utilizing its newsletter or other materials to publish information about the election and the candidates as it may determine to be in the best interest of the members and a fair election. ...

7.12 - The Massachusetts Port Authority Employees' Retirement System 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 candidate. 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 Massachusetts Port Authority Employees' Retirement System 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.

April 18, 1997

Veterans' Service Buy-Back Regulations

Approval of regulations to implement purchases of veterans' service pursuant to chapter 71 of the acts of 1996.

May 29, 1996

ERI Regulations

Approval of regulations to implement an Early Retirement Incentive program pursuant to section 49 of chapter 133 of the acts of 1992 as amended by chapter 5 of the acts of 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

March 27, 1996

The Massachusetts Port Authority Retirement System will grant creditable service to members of the Retirement System as follows: The Board shall grant up to one month of creditable service for any authorized leave of absence or medically related leave, planned or not, including maternity leaves, for which the member received no compensation. Each separate period of continuous absence is subject to the full one-month limit. The Board shall maintain discretion to limit the above stated rule in situations where the consecutive periods of absence without pay are related to the same cause and are separated by relatively short periods of employment. All determinations of creditable service shall be subject to review by the Retirement Board at the time of retirement.

April 26, 1993

Creditable Service

Regularly employed employees with periods of full time and less than full time employment, shall be granted one full year of creditable service for each year of full time employment and a prorated amount of creditable service for the periods of less than full time employment determined in the same manner as for transferred service referred to above. The prorated service shall be based on the actual hours worked as it relates to the full time hours of the position.

Regularly employed employees who work less than full time throughout their entire employment with Massport, do not have prior full time creditable service with another c. 32 retirement system, and retire from Massport, shall receive one year of creditable service for each year of such part time service. If any such employee should transfer to another retirement system, governed by c. 32 pursuant to which service with Massport would be considered creditable service, the amount of creditable service to which the employee shall be entitled should be that part of a year determined by multiplying one year by a fraction in which the numerator is the total hours worked and the denominator is the total of the full time hours of the position.

January 30, 2004

Travel Regulation

The Board has adopted a Supplementary Travel Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request and also available on the PERAC website, <http://www.mass.gov/perac>.)

## 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 Chief Financial Officer 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 Pranckevicius

Appointed Member: Michael Grieco Serves until a successor is appointed

Elected Member: Philip Mallett Term Expires: 1/10/11

Elected Member: David Davis Term Expires: 1/10/11

Appointed Member: James Costello, Chairperson Term Expires: 1/11/12

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/	
Ex-officio Member:	) \$1,000,000 Fiduciary and
Elected Members:	) \$3,000,000 Fidelity Policy
Appointed Members:	) Hartford Casualty Insurance
Staff Employee:	) Company

## 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, 2009.

The total actuarial liability was *	\$327,828,633
System assets as of that date were	<u>342,952,767</u>
The unfunded actuarial liability was	<u>(\$15,124,134)</u>
The ratio of system's assets to total actuarial liability was	104.6%
As of that date the total covered employee payroll was	\$85,943,871

The normal cost for employees on that date was 8.86% of payroll  
 The normal cost for the employer was 9.11% 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, 2009

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Liability* ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2009	\$342,952,767	\$327,828,633	(\$15,124,134)	104.6%	\$85,943,871	(-17.6%)
1/1/2008	\$396,929,832	\$387,223,231	(\$9,706,601)	102.5%	\$81,119,712	(-12.0%)
1/1/2007	\$368,345,560	\$357,507,095	(\$10,838,465)	103.0%	\$76,834,550	(-14.1%)
1/1/2006	\$327,713,971	\$317,033,081	(\$10,680,890)	103.4%	\$73,513,857	(-14.5%)
1/1/2005	\$304,427,367	\$293,549,778	(\$10,877,589)	103.7%	\$71,030,055	(-15.3%)
1/1/2004	\$293,743,204	\$282,683,063	(\$11,060,141)	103.9%	\$64,521,876	(-17.1%)

\*Frozen Entry Age. The actuarial liability shown is the frozen initial unfunded amount plus the assets. The funding method does not explicitly calculate an unfunded actuarial accrued liability, and therefore it cannot be broken down by active and retired members.

## 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	3	12	28	19	66	13	17	24	19	29
Ordinary Disability	1	1	2	0	0	0	1	1	0	0
Accidental Disability	4	0	3	2	2	3	3	0	4	2
<b>Total Retirements</b>	8	13	33	21	68	16	21	25	23	31
Total Retirees, Beneficiaries and Survivors	306	312	351	371	435	437	456	484	478	500
Total Active Members	1,191	1,203	1,110	1,107	1,072	1,125	1,153	1,171	1,179	1,192
<b>Pension Payments</b>										
Superannuation	\$3,478,056	\$3,592,206	\$3,782,436	\$4,722,825	\$6,104,338	\$6,911,730	\$7,058,394	\$7,872,178	\$8,368,034	\$8,973,213
Survivor/Beneficiary Payments	390,715	483,514	496,661	598,556	703,951	842,543	918,480	995,316	993,802	1,037,531
Ordinary Disability	144,224	142,713	170,880	151,428	119,760	112,086	96,856	147,440	210,118	144,842
Accidental Disability	723,471	764,952	966,487	917,651	1,115,814	1,129,071	1,215,685	1,306,892	1,453,997	1,467,008
Other	335,733	345,566	317,230	231,786	458,279	562,174	598,452	247,619	230,656	185,884
<b>Total Payments for Year</b>	<u>\$5,072,199</u>	<u>\$5,328,951</u>	<u>\$5,733,694</u>	<u>\$6,622,246</u>	<u>\$8,502,142</u>	<u>\$9,557,604</u>	<u>\$9,887,867</u>	<u>\$10,569,445</u>	<u>\$11,256,606</u>	<u>\$11,808,478</u>

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