

# PERAC AUDIT REPORT



New Bedford  
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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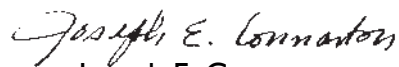
December 13, 2011

The Public Employee Retirement Administration Commission has completed an examination of the New Bedford 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 the finding presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and John J. Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,

  
Joseph E. Connarton  
Executive Director





## EXPLANATION OF FINDING AND RECOMMENDATION

### **Board Member Attendance:**

A review of the Board members meeting attendance continues to reveal a significant level of absenteeism. One member missed 36% of the meetings in 2008 and 58% of the meetings through 2009. The result is an attendance rate for a Board member that was well below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive. This similar finding regarding the same Board member's attendance was also made in the previous 1/1/05 - 12/31/07 audit.

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

### **Board Response:**

The Board discussed the matter with the individual Board Member. All Board Members will coordinate the scheduling of meetings in such a manner to allow more effective participation and improved attendance by the member in question.

### **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
<b>Net Assets Available For Benefits:</b>			
Cash	\$15,445,411	\$6,700,599	\$15,759,157
Fixed Income Securities	38,850,277	38,814,771	36,974,906
Equities	77,214,526	71,385,533	48,592,781
Pooled Domestic Equity Funds	41,258,385	34,289,372	22,420,616
Pooled International Equity Funds	16,059,430	16,625,192	10,092,460
Pooled Alternative Investment Funds	12,713,761	9,958,464	22,987,639
Pooled Real Estate Funds	14,791,881	13,214,742	21,128,786
Hedge Funds	12,869,473	12,108,061	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	401,198	465,412	540,459
Accounts Receivable	466,858	3,610,045	229,089
Accounts Payable	(894,652)	(827,764)	(120,542)
<b>Total</b>	<u>\$229,176,547</u>	<u>\$206,344,428</u>	<u>\$178,605,349</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$84,653,483	\$82,975,109	\$82,221,419
Annuity Reserve Fund	29,710,080	28,367,849	26,329,094
Pension Fund	630,994	237,249	50,648
Military Service Fund	57,877	61,830	61,522
Expense Fund	0	0	0
Pension Reserve Fund	114,124,113	94,702,390	69,942,665
<b>Total</b>	<u>\$229,176,547</u>	<u>\$206,344,428</u>	<u>\$178,605,349</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)	\$78,057,400	\$25,400,270	\$55,466	\$61,156	\$0	\$143,439,150	\$247,013,441
Receipts	9,108,054	777,672	25,440,238	367	2,114,638	(70,279,896)	(32,838,926)
Interfund Transfers	(3,988,728)	3,986,425	3,218,891	0	0	(3,216,588)	0
Disbursements	(955,306)	(3,835,273)	(28,663,948)	0	(2,114,638)	0	(35,569,166)
Ending Balance (2008)	82,221,419	26,329,094	50,648	61,522	0	69,942,665	178,605,349
Receipts	8,229,506	823,793	26,088,440	308	1,686,906	29,141,619	65,970,571
Interfund Transfers	(5,731,395)	5,731,836	4,381,454	0	0	(4,381,895)	0
Disbursements	(1,744,421)	(4,516,874)	(30,283,292)	0	(1,686,906)	0	(38,231,492)
Ending Balance (2009)	82,975,109	28,367,849	237,249	61,830	0	94,702,390	206,344,428
Receipts	8,025,972	863,624	26,583,084	185	2,205,500	25,385,883	63,064,249
Interfund Transfers	(5,133,603)	5,131,294	5,970,607	(4,139)	0	(5,964,159)	0
Disbursements	(1,213,996)	(4,652,688)	(32,159,946)	0	(2,205,500)	0	(40,232,129)
Ending Balance (2010)	<u>\$84,653,483</u>	<u>\$29,710,080</u>	<u>\$630,994</u>	<u>\$57,877</u>	<u>\$0</u>	<u>\$114,124,113</u>	<u>\$229,176,547</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Members Deductions	\$7,327,667	\$7,511,799	\$8,342,630
Transfers from Other Systems	368,316	176,847	174,746
Member Make Up Payments and Re-deposits	83,475	73,723	95,150
Member Payments from Rollovers	3,584	78,699	44,895
Investment Income Credited to Member Accounts	<u>242,930</u>	<u>388,437</u>	<u>450,633</u>
Sub Total	<u>8,025,972</u>	<u>8,229,506</u>	<u>9,108,054</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>863,624</u>	<u>823,793</u>	<u>777,672</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	234,266	202,223	196,078
Pension Fund Appropriation	1,038,106	1,133,082	1,231,599
Settlement of Workers' Compensation Claims	25,300,037	24,747,734	24,012,561
	<u>10,675</u>	<u>5,400</u>	<u>0</u>
Sub Total	<u>26,583,084</u>	<u>26,088,440</u>	<u>25,440,238</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>185</u>	<u>308</u>	<u>367</u>
Sub Total	<u>185</u>	<u>308</u>	<u>367</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>2,205,500</u>	<u>1,686,906</u>	<u>2,114,638</u>
Sub Total	<u>2,205,500</u>	<u>1,686,906</u>	<u>2,114,638</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	72,003	82,957	90,534
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,569	4,006	8,436
Miscellaneous Income	0	81	14
Excess Investment Income (Loss)	<u>25,310,311</u>	<u>29,054,575</u>	<u>(70,378,879)</u>
Sub Total, Net	<u>25,385,883</u>	<u>29,141,619</u>	<u>(70,279,896)</u>
<b>Total Receipts, Net</b>	<u>\$63,064,249</u>	<u>\$65,970,571</u>	<u>(\$32,838,926)</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$678,078	\$1,248,150	\$629,557
Transfers to Other Systems	535,918	496,271	325,749
Sub Total	<u>1,213,996</u>	<u>1,744,421</u>	<u>955,306</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	4,488,200	4,155,354	3,823,726
Option B Refunds	164,487	361,520	11,547
Sub Total	<u>4,652,688</u>	<u>4,516,874</u>	<u>3,835,273</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	18,377,779	16,755,776	16,046,779
Survivorship Payments	983,715	934,469	916,146
Ordinary Disability Payments	265,096	254,860	249,863
Accidental Disability Payments	9,031,239	8,791,354	8,128,778
Accidental Death Payments	1,789,900	1,997,656	1,958,486
Section 101 Benefits	341,875	486,462	462,542
3 (8) (c) Reimbursements to Other Systems	1,370,343	1,062,715	901,353
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>32,159,946</u>	<u>30,283,292</u>	<u>28,663,948</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
<b>Expense Fund:</b>			
Board Member Stipend	16,500	16,500	16,500
Salaries	209,331	214,666	204,429
Legal Expenses	1,702	4,209	12,555
Medical Expenses	0	0	0
Travel Expenses	12,240	4,964	12,537
Administrative Expenses	77,290	77,921	77,705
Professional Services	30,907	14,600	0
Furniture and Equipment	4,587	9,488	3,977
Management Fees	1,624,638	1,109,108	1,546,518
Custodial Fees	97,353	102,997	95,813
Consultant Fees	64,750	64,750	64,750
Rent Expenses	19,194	17,525	15,856
Service Contracts	24,331	29,256	44,160
Fiduciary Insurance	22,679	20,923	19,839
Sub Total	<u>2,205,500</u>	<u>1,686,906</u>	<u>2,114,638</u>
<b>Total Disbursements</b>	<u>\$40,232,129</u>	<u>\$38,231,492</u>	<u>\$35,569,166</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Investment Income Received From:</b>			
Cash	\$4,934	\$6,275	\$146,398
Fixed Income	2,441,211	2,887,631	3,359,270
Equities	1,260,390	1,327,187	1,530,868
Pooled or Mutual Funds	1,488,661	1,381,977	1,564,565
Commission Recapture	<u>18,094</u>	<u>16,007</u>	<u>22,061</u>
<b>Total Investment Income</b>	<u>5,213,290</u>	<u>5,619,077</u>	<u>6,623,162</u>
<b>Plus:</b>			
Realized Gains	4,841,937	8,442,751	3,821,991
Unrealized Gains	37,079,409	40,166,345	9,240,894
Interest Due and Accrued - Current Year	<u>401,198</u>	<u>465,412</u>	<u>540,459</u>
Sub Total	<u>42,322,544</u>	<u>49,074,508</u>	<u>13,603,343</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(231,411)	(260,657)	(413,772)
Realized Loss	(3,093,239)	(6,013,348)	(18,340,798)
Unrealized Loss	(15,123,220)	(15,925,102)	(67,853,843)
Interest Due and Accrued - Prior Year	<u>(465,412)</u>	<u>(540,459)</u>	<u>(653,661)</u>
Sub Total	<u>(18,913,283)</u>	<u>(22,739,566)</u>	<u>(87,262,074)</u>
<b>Net Investment Income (Loss)</b>	<u>28,622,551</u>	<u>31,954,019</u>	<u>(67,035,569)</u>
<b>Income Required:</b>			
Annuity Savings Fund	242,930	388,437	450,633
Annuity Reserve Fund	863,624	823,793	777,672
Military Service Fund	185	308	367
Expense Fund	<u>2,205,500</u>	<u>1,686,906</u>	<u>2,114,638</u>
<b>Total Income Required</b>	<u>3,312,241</u>	<u>2,899,443</u>	<u>3,343,310</u>
Net Investment Income (Loss)	<u>28,622,551</u>	<u>31,954,019</u>	<u>(67,035,569)</u>
Less: Total Income Required	<u>3,312,241</u>	<u>2,899,443</u>	<u>3,343,310</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$25,310,311</u>	<u>\$29,054,575</u>	<u>(\$70,378,879)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$15,445,411	6.7%
Fixed Income	38,850,277	17.0%
Equities	77,214,526	33.7%
Pooled Domestic Equity Funds	41,258,385	18.0%
Pooled International Equity Funds	16,059,430	7.0%
Pooled Alternative Investment Funds	12,713,761	5.5%
Pooled Real Estate Funds	14,791,881	6.5%
Hedge Funds	12,869,473	5.6%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
<b>Grand Total</b>	<b><u>\$229,203,142</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2010, the rate of return for the investments of the New Bedford Retirement System was 13.56%. For the five year period ending December 31, 2010, the rate of return for the investments of the New Bedford Retirement System averaged 4.62%. For the twenty-six 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 New Bedford Retirement System was 8.14%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the twenty-six year period ending December 31, 2010, 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 New Bedford Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

### December 11, 2007

#### 17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the New Bedford Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. Venture Partnership Fund IV, LP (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, and the underlying funds in which the Fund may invest, 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 statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

### December 11, 2007

#### 17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the New Bedford Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. LBO & Corporate Finance Partnership Fund IV, LP (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, and the underlying funds in which the Fund may invest, 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 statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

### December 11, 2007

#### 17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the New Bedford Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO International Partnership Fund IV, LP (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 statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

July 18, 2007

17.04

Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the New Bedford Contributory Retirement System (the "System") may invest its assets in the fund known as the Wellington Trust Company, National Association Multiple Collective Investment Funds Trust ("the Fund"), and while the funds of the System are so invested, the assets of the System so invested shall be deemed to meet the provisions of the rules set forth in 840 CMR 17.00 et seq.; provided, however, that Wellington Trust Company, National Association ("Wellington Trust") shall comply with 840 CMR 17.04(7) and (8) and that at all times, Wellington Trust remains a qualified investment manager as defined in 840 CMR 16.01 and that said investment is contingent on Wellington Trust's and the Fund's continuing compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated there under.

July 25, 2006

19.01(06)

Notwithstanding the provisions of Public Employee Retirement Administration Commission Regulations, the New Bedford Retirement Board may invest funds of the New Bedford Retirement Board (the "Board") with the real estate investment fund known as Realty Associates Fund VIII Corporation (the "Fund"), and while the assets of the System are so invested,

(i) 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 or the operating partnership in which the Fund is invested (the "OP") but not any of the underlying assets of the Fund or the OP; provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated there under, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and

(ii) The limitation and restrictions set forth in 840 CMR Section 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP provided, however, that any investment may be made in excess of 20% of the capital commitments to the Fund (determined at the time of such investment) if the investment is approved in advance by the OP's Advisory Committee.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all New Bedford 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:**

Electricians and other 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 at 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. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- 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. Members 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. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

## 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”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

**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 \$751.80 per year (or \$312 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. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, §. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

## 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 \$751.80 per year, per child (or \$312 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

### 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 (COLA) 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 COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

### 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 is unmarried at the time of retirement for a member whose retirement becomes

## NOTES TO FINANCIAL STATEMENTS (Continued)

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” to Option A) 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” to Option A 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 market value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership:

June 9, 2001:

Policy on Enrollment:

Following are the employment classifications of employees who are eligible for membership in the New Bedford Contributory Retirement System pursuant to M.G.L. c. 32, section 3(2)(d):

<u>Status</u>	<u>Minimum Hours</u>
Full-Time	Mandated
Part-Time (all categories)	20 hours or more per week on a regular basis.
Full-Time Temporary	At the completion of thirty (30) consecutive weeks of temporary employment from the start of service.
Full-Time Provisional	Mandated

Following are employment classification of employees who are not eligible for enrollment into the New Bedford Contributory Retirement System:

<u>Status</u>	<u>Minimum Hours</u>
Seasonal	
Intermittent	
Temporary	Less than thirty (30) consecutive weeks of temporary employment.

Creditable Service:

December 20, 1984:

Employees in the school department will not receive service credit while collecting unemployment compensation due to a layoff.

Part-time employees, if always part-time, receive full credit for years of service.

Part-time employees who change to full-time positions are granted one year of service for 2-3 years of service depending on hours worked.

Regular Compensation:

No regulations at this time.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Miscellaneous

March 19, 2001

Elected Members:

The New Bedford Contributory Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the New Bedford Contributory 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. In the event of a vacancy, a new election shall be conducted to fill a vacancy as soon as practicable and the member shall serve for the unexpired portion of the vacant term.

December 20, 1984

Medical panel reports:

To provide any examined individual, or his designated agent in writing a copy of his medical panel report unless there is a special caveat from any of the doctors involved

February 19, 2003

Travel Regulations:

The New Bedford Retirement System has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c. 32, § 21(4). Regulation available upon written request and are also available on the PERAC website

(<http://www.mass.gov/perac/03travelreg/newbedfordtravelreg.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: Peter C. Schmidt

Appointed Member: Arthur J. Caron, Jr. Esq.                      Until a successor is appointed  
Chairman

Elected Member: Paul M. Lestage                                      Term Expires: 06/30/2013

Elected Member: Edward J. Wiley                                      Term Expires: 06/30/2013

Appointed Member: Dennis C. Brightman                              Term Expires: 02/01/2012

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. 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 \$100,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2010.

The actuarial liability for active members was	\$225,515,664
The actuarial liability for retired and inactive members was	<u>320,099,134</u>
The total actuarial liability was	545,614,798
System assets as of that date were	<u>226,978,870</u>
The unfunded actuarial liability was	<u>\$318,635,928</u>
The ratio of system's assets to total actuarial liability was	41.6%
As of that date the total covered employee payroll was	\$82,625,990

The normal cost for employees on that date was 8.3% of payroll  
 The normal cost for the employer was 3.9% of payroll

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

Investment Return: 7.75% per annum  
 Rate of Salary Increase: 3.00% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
01/01/10	\$226,978,870	\$545,614,798	\$318,635,928	41.6%	\$82,625,990	385.6%
01/01/09	\$196,465,884	\$516,132,737	\$319,666,853	38.1%	\$90,036,405	355.0%
01/01/07	\$210,446,468	\$469,061,751	\$258,615,283	44.9%	\$86,659,224	298.4%
01/01/06	\$192,032,773	\$416,761,645	\$224,728,872	46.1%	\$81,884,807	274.4%
01/01/04	\$175,663,857	\$380,950,456	\$205,286,599	46.1%	\$75,414,151	272.2%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Retirement in Past Years</b>										
Superannuation	80	170	48	41	41	45	41	68	80	71
Ordinary Disability	1	1	0	0	0	0	3	0	1	1
Accidental Disability	4	16	22	11	13	13	18	6	13	9
<b>Total Retirements</b>	85	187	70	52	54	58	62	74	94	81
Total Retirees, Beneficiaries and Survivors	1,678	1,800	1,727	1,759	1,737	1,724	1,730	1,742	1,756	1,767
Total Active Members	2,622	2,288	2,267	2,339	2,233	2,275	2,382	2,341	2,085	1,980
<b>Pension Payments</b>										
Superannuation	\$8,763,154	\$10,712,987	\$12,864,370	\$13,371,822	\$13,956,306	\$14,309,467	\$15,450,901	\$16,046,779	\$16,755,776	\$18,377,779
Survivor/Beneficiary Payments	677,936	800,346	762,640	893,863	812,708	869,893	901,490	916,146	934,469	983,715
Ordinary Disability	195,650	218,353	210,972	232,443	218,549	212,517	237,401	249,863	254,860	265,096
Accidental Disability	5,420,408	5,781,602	6,389,475	6,875,301	7,140,655	8,546,133	7,874,321	8,128,778	8,791,354	9,031,239
Other	3,768,050	1,647,421	2,621,384	2,849,496	2,907,624	3,001,905	3,229,525	3,322,381	3,546,832	3,502,117
<b>Total Payments for Year</b>	<u>\$18,825,198</u>	<u>\$19,160,709</u>	<u>\$22,848,841</u>	<u>\$24,222,925</u>	<u>\$25,035,842</u>	<u>\$26,939,915</u>	<u>\$27,693,638</u>	<u>\$28,663,948</u>	<u>\$30,283,292</u>	<u>\$32,159,946</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The New Bedford Retirement Board leases approximately 2,500 square feet of space for its offices located at Suite 203 A, 651 Orchard Street, New Bedford, MA. 02744. They signed an initial 5 year lease which expires on September 30, 2011. A 5 year lease extension, (\$10.00 per sq. ft.) which will expire on September 30, 2016 was signed on June 29, 2010. The landlord is Howland Place Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2010:

<u>For the year ending:</u>	<u>Annual Rent</u>
2011	\$23,148.66
2012	\$25,000.00
2013	\$25,000.00
2014	\$25,000.00
2015	\$25,000.00
2016 (Through September 30, 2016)	\$18,749.97
Total future minimum lease payments required	<u>\$141,898.63</u>



PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)