

PERAC AUDIT REPORT



Norwood
Contributory Retirement System



JAN. 1, 2007 - 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*


April 30, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Norwood Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners John J. Shea, Martin J. Feeney, Carol M. Niemira, and Scott Henderson 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. Prior Audit Finding on Refunds:

The prior PERAC audit for the three-year period from January 1, 2004 through December 31, 2006 contained a finding concerning a duplicate payment made for a refund in 2005. The overpayment totaled almost \$8,800. The Board's response was that an agreement was being drafted in which the member agreed to pay a portion of the overpayment in a lump sum and the remainder on a monthly basis. To date no payments have been received, despite several requests from the retirement office and the Board's attorney.

Recommendation: The Board must consult with its attorney and take immediate legal action to recover this overpayment.

Board Response:

The Board discussed the first finding regarding a member being issued duplicate refund checks in error and agrees with this finding. The Board had been in correspondence with the individual in question and he had agreed to repay the overpayment on a monthly basis until such time as the total due was paid in full. However, he has yet to make any restitution to the System. The Board's attorney has again sent the individual a letter advising that he must pay back the monies he received in error or else face court proceedings immediately and that the Board shall seek interest on all monies due the System since the date of the refund.

2. Active Members Over Seventy Years Old:

A review of active members who were age seventy or older revealed that none had made an election whether or not to continue contributing to the retirement system as required under G.L. c. 32, § 90(G)(3/4). There was no indication in the files that these members had been notified or counseled relative to the implications of this irrevocable election. There did not appear to be a reliable process for notifying qualifying members in the future.

Recommendation: The System must comply with G.L. c. 32, § 90(G)(3/4). At least 180 days before the last day of the month in which a member attains age seventy, the retirement office should contact the member about continuing retirement contributions beyond age seventy. These members should be counseled on the benefits, options and procedures relative to this decision. The PERAC Form "Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, § 90(G)(3/4)" is the evidentiary document that supports this election. The form must be completed and maintained in the member's permanent file.

Board Response:

The second finding is the issue of active members over seventy years old having not made a written election whether or not to continue contributing to the Retirement System as required under MGL c. 32 s. 90 (G)(3/4). Whereas the occurrence of members working beyond the age of 70 is a relatively rare occurrence (only 9 out of approximately 600 members) the Board agrees with this finding and has taken steps to be in compliance with MGL c. 32 s. 90(G)(3/4) and has already contacted the 5 members who will be turning age seventy this year, advising them of the benefits and options available to them. Included with this notification was the PERAC Form "Application by

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

(Continued)

Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, s 9 (G)(3/4). This completed application is being maintained in the member's permanent file (4 of the 5 members have formally responded).

3. Pooled Funds:

The Norwood Retirement System currently invests in six pooled funds. The System does not make use of the detailed statements issued by the investment managers as its primary source documents. This is a necessary test to confirm the accuracy of the financial results reported by the custodian. Also, pooled fund statements contain additional information not available from custodial reports which must be used when accounting for this type of investment.

A review of the managers' statements reveals that reinvested investment income and management fees have been included in unrealized gains or losses when posting to the general ledger instead of posting them separately to Investment Income #4821 and Management Fees #5304, respectively.

Recommendation: At least quarterly, data from pooled fund managers' statements should be used to post to the general ledger and reconciled to the custodian for accuracy, taking any timing differences into consideration. PERAC Guide "How to Complete a Pooled Fund Worksheet" explains the appropriate accounting entries. Future Annual Statements must be modified to list pooled fund fees and investment income on Schedules 5 and 6, as well as to update managers' market values to December 31 when the custodian's posted values are delayed due to its reporting deadlines.

Board Response:

The third issue is regarding the System not making use of detailed statements issued by the investment managers as its primary source document. The Board agrees with said finding that the System has been relying on the Custodial Statement to make these accounting entries. The retirement office will make sure that detailed statements are received from the Pooled Fund managers so that the proper break out of investment income and management fees are booked and posted to the correct ledger accounts. The PERAC Guide How to Complete a Pooled Fund Worksheet will be followed and future annual statements will be modified to list pooled fund fees and investment income on Schedules 5 and 6.

4. Member Deductions:

PERAC auditors sampled members' deductions to determine that the correct rates are calculated, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979.

The Norwood Housing Authority consistently withheld an incorrect amount for retirement deductions, resulting in some members owing money to the System and others being owed refunds. Pay categorized as "Personal pay" is included as retirement eligible for some employees but not others. Their payroll does not break out the regular retirement contribution, as well as the additional 2% deduction. Deduction reports provided to the Retirement Board do not provide this information either.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The Norwood Housing Authority and the Norwood Retirement System must comply with G.L. c. 32, § 22(1) (b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. A more extensive review process must be considered to ensure compliance with these requirements. In addition, the System should periodically monitor more complete payroll reports for compliance. All persons charged with processing retirement deductions should receive copies of correspondence relating to new regulations and other changes involving eligibility and contribution rates.

Board Response:

The Board has reviewed this issue and agrees with this finding that the Norwood Housing Authority has consistently withheld an incorrect amount for retirement deductions resulting in some members owing money and others being owed refunds. The Retirement Office will work with the Norwood Housing Authority to get them into compliance with G.L. c 32, s 22(1)(b) and PERAC Memo #43/1999, as well as making sure that the payroll coordinator is kept up to date with all correspondence relating to new regulations and other changes involving eligibility and contribution rates. The Retirement Office will formally advise the Norwood Housing Authority of this payroll discrepancy and also endeavor to work with the Housing Authority in seeking an appropriate payroll software program that meets the necessary calculation procedures so that retirement deductions are being made at the appropriate rate going forward.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2008	2007
Net Assets Available For Benefits:		
Cash	\$2,401,264	\$18,330,356
Fixed Income Securities	1,615,541	1,687,578
Equities	14,913,539	27,746,022
Pooled Domestic Equity Funds	13,584,688	11,065,686
Pooled International Equity Funds	14,009,056	23,555,163
Pooled Domestic Fixed Income Funds	28,169,730	31,981,679
Pooled Global Fixed Income Funds	5,336,215	0
Pooled Real Estate Funds	6,981,711	0
Interest Due and Accrued	14,892	24,711
Accounts Receivable	79,768	98,462
Accounts Payable	(117,149)	(158,885)
Total	<u>\$86,989,255</u>	<u>\$114,330,773</u>
Fund Balances:		
Annuity Savings Fund	\$25,677,498	\$23,998,441
Annuity Reserve Fund	6,167,957	6,267,554
Pension Fund	0	0
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	55,143,799	84,064,777
Total	<u>\$86,989,255</u>	<u>\$114,330,773</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2007)	\$22,650,913	\$6,190,603	\$0	\$0	\$0	\$79,889,735	\$108,731,251
Receipts	2,513,238	189,375	2,626,588	0	676,914	7,705,705	13,711,821
Interfund Transfers	(1,024,267)	1,024,267	3,530,663	0	0	(3,530,663)	0
Disbursements	(141,442)	(1,136,691)	(6,157,251)	0	(676,914)	0	(8,112,299)
Ending Balance (2007)	23,998,441	6,267,554	0	0	0	84,064,777	114,330,773
Receipts	2,691,198	185,227	2,618,770	0	567,607	(25,171,912)	(19,109,110)
Interfund Transfers	(680,040)	680,040	3,749,066	0	0	(3,749,066)	0
Disbursements	(332,101)	(964,864)	(6,367,836)	0	(567,607)	0	(8,232,408)
Ending Balance (2008)	<u>\$25,677,498</u>	<u>\$6,167,957</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$55,143,799</u>	<u>\$86,989,255</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Members Deductions	\$2,395,228	\$2,263,815
Transfers from Other Systems	100,411	83,081
Member Make Up Payments and Re-deposits	54,865	35,033
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>140,695</u>	<u>131,309</u>
Sub Total	<u>2,691,198</u>	<u>2,513,238</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>185,227</u>	<u>189,375</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	118,893	131,908
	220,122	240,483
Pension Fund Appropriation	2,279,755	2,254,197
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>
Sub Total	<u>2,618,770</u>	<u>2,626,588</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>567,607</u>	<u>676,914</u>
Sub Total	<u>567,607</u>	<u>676,914</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	73,103	71,654
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,347	1,658
Miscellaneous Income	46,872	41,052
Excess Investment Income (Loss)	<u>(25,294,235)</u>	<u>7,591,341</u>
Sub Total	<u>(25,171,912)</u>	<u>7,705,705</u>
Total Receipts	<u>(\$19,109,110)</u>	<u>\$13,711,821</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007
Annuity Savings Fund:		
Refunds to Members	\$74,328	\$101,437
Transfers to Other Systems	<u>257,773</u>	<u>40,005</u>
Sub Total	<u>332,101</u>	<u>141,442</u>
Annuity Reserve Fund:		
Annuities Paid	920,816	974,243
Option B Refunds	<u>44,048</u>	<u>162,447</u>
Sub Total	<u>964,864</u>	<u>1,136,691</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,001,216	3,974,739
Survivorship Payments	405,908	409,657
Ordinary Disability Payments	124,905	129,734
Accidental Disability Payments	1,133,688	1,047,860
Accidental Death Payments	501,379	458,963
Section 101 Benefits	35,247	27,717
3 (8) (c) Reimbursements to Other Systems	165,493	108,581
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,367,836</u>	<u>6,157,251</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	12,000	12,000
Salaries	50,263	55,751
Legal Expenses	5,296	6,703
Medical Expenses	0	0
Travel Expenses	5,688	4,635
Administrative Expenses	97,827	90,658
Furniture and Equipment	1,126	0
Management Fees	216,948	334,306
Custodial Fees	106,644	74,339
Consultant Fees	66,403	93,276
Fiduciary Insurance	<u>5,412</u>	<u>5,247</u>
Sub Total	<u>567,607</u>	<u>676,914</u>
Total Disbursements	<u>\$8,232,408</u>	<u>\$8,112,299</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31	
	2008	2007
Investment Income Received From:		
Cash	\$29,934	\$34,761
Fixed Income	39,372	36,610
Equities	468,296	511,310
Pooled or Mutual Funds	1,002,032	2,296,999
Commission Recapture	0	0
Total Investment Income	<u>1,539,634</u>	<u>2,879,680</u>
Plus:		
Realized Gains	1,387,436	3,467,662
Unrealized Gains	2,083,528	8,729,196
Interest Due and Accrued - Current Year	<u>14,892</u>	<u>24,711</u>
Sub Total	<u>3,485,855</u>	<u>12,221,569</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(491)	(865)
Realized Loss	(5,994,043)	(2,160,077)
Unrealized Loss	(23,406,950)	(4,331,123)
Interest Due and Accrued - Prior Year	<u>(24,711)</u>	<u>(20,246)</u>
Sub Total	<u>(29,426,195)</u>	<u>(6,512,311)</u>
Net Investment Income (Loss)	<u>(24,400,706)</u>	<u>8,588,939</u>
Income Required:		
Annuity Savings Fund	140,695	131,309
Annuity Reserve Fund	185,227	189,375
Military Service Fund	0	0
Expense Fund	<u>567,607</u>	<u>676,914</u>
Total Income Required	<u>893,528</u>	<u>997,598</u>
Net Investment Income (Loss)	<u>(24,400,706)</u>	<u>8,588,939</u>
Less: Total Income Required	<u>893,528</u>	<u>997,598</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$25,294,235)</u>	<u>\$7,591,341</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,401,264	2.76%
Fixed Income	1,615,541	1.9%
Equities	14,913,539	17.1%
Pooled Domestic Equity Funds	13,584,688	15.6%
Pooled International Equity Funds	14,009,056	16.1%
Pooled Domestic Fixed Income Funds	28,169,730	32.4%
Pooled Global Fixed Income Funds	5,336,215	6.1%
Pooled Real Estate Funds	6,981,711	8.0%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$87,011,744</u>	<u>100.0%</u>

For the year ending December 31, 2008, the rate of return for the investments of the Norwood Retirement System was -20.57%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Norwood Retirement System averaged 2.83%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Norwood Retirement System was 8.78%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

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

March 28, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Norwood Retirement System may modify its fixed income mandate with David L. Babson to allow for opportunistic investment in high-yield securities up to a maximum of 10% of the total portfolio. Babson has been the system's fixed income manager for over six years. The Board and its consultant have examined and are satisfied with Babson's capabilities in the high-yield sector.

January 9, 1998

20.03(1)

Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

July 23, 1997

20.03(2)

At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

December 15, 1994

20.06(8)

Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations for the calendar years 1994 and 1995.

20.07(6)

Purchases and sales of equity investments shall not exceed 300% of the average market value of all equity holdings in any twelve-month period for calendar years 1994 and 1995.

20.07(6)

Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period commencing calendar year 1996.

October 27, 1994

18.02(4)

Rate of Return. A statement of the rate of return objective for the entire portfolio which shall be to achieve a compound rate of return in excess of an index consisting of sixty percent of the Standard and Poor's 500 Stock Index and forty percent of the Lehman Brothers Aggregate Index.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 27, 1994 (Continued)

18.02(5)

Risk. The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .80 nor more than 1.20 as determined in accordance with the beta service approved by the Executive Director.

20.03(2)

At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.07(9)

Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of the personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

October 6, 1994

16.02(3)

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

(a) 1% of the total value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

January 7, 1992

20.03(1)

(a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.

(b) International equities shall not exceed 5% of the book value of the portfolio at the time of purchase.

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on the United States stock exchange, traded over the counter in the United States, or listed and traded on the foreign exchange.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

December 24, 1991

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.

November 7, 1989

20.04(6)

The portion of the portfolio that is invested in the MFS Lifetime Capital Growth Trust may include investments in foreign securities which are traded on foreign exchanges.

November 1, 1989

20.07(9)

Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Norwood Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$708.60 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board 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 Norwood Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

December 31, 1997

Make-Up Payments

The minimum deduction regarding make-up payments would be no less than \$10.00 per week, or \$500.00 per year.

February 13, 1991

Membership

Any new hires must earn a minimum of \$5000.00 per year and work a minimum of twenty (20) hours per week to be eligible for membership into the Norwood Retirement System. (Traffic and Cafeteria Workers are exempt).

July 7, 1986

Election Rules

Sixty Day notice requirement for use in retirement board election.

December 31, 1984

Creditable Service

1. Service Credit for Employees on Provisional Basis:

Employees who are employed on a full time regular basis and wish to receive credit for the time they spent on a provisional or part-time basis will be given credit for each month worked prior to becoming a full time regular employee. Any part of a month is to be considered a full month.

2. Part-time employees:

The minimum salary for acceptance of part-time workers into the Norwood Contributory Retirement System shall be \$1500.00 yearly. Anyone earning less than \$1500.00 will not be accepted as a member.

In each and every case concerning part-time workers the board shall determine what service credit shall be for each individual permanent part-time position. The basis for a full year's credit shall be 2000 hours.

The Board has determined that this policy on part-time workers shall apply to all part-time workers now in the system as well as those who join the retirement system in the future.

3. Police Traffic Supervisors and Cafeteria Workers:

Police Traffic Supervisors and School Cafeteria Workers shall receive a full year's credit for each year worked.

(Amended February 13, 1991. See Membership.)

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 Town Clerk and Accountant 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: Robert M. Thornton

Appointed Member: Edmund W. Mulvehill, Jr. Serves until a successor is appointed

Elected Member: Eileen P. Hickey, Term Expires: 10/15/2010
Chairman

Elected Member: Thomas F. O'Toole Term Expires: 12/01/2011

Appointed Member: Joseph F. Curran Term Expires: 01/01/2012

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 and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$ 65,267,058
The actuarial liability for retired members was	<u>54,477,743</u>
The total actuarial liability was	\$119,744,801
System assets as of that date were (actuarial value)	<u>107,392,239</u>
The unfunded actuarial liability was	<u>\$ 12,352,562</u>
The ratio of system's assets to total actuarial liability was	89.7%
As of that date the total covered employee payroll was	\$ 25,566,200

The normal cost for employees on that date was 8.08% of payroll
 The normal cost for the employer was 3.35% of payroll

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

Investment Return: 8.50% per annum
 Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$107,392,239	\$119,744,801	\$12,352,562	89.7%	\$25,566,200	48.3%
1/1/2005	\$94,750,560	\$107,755,858	\$13,005,298	87.9%	\$23,712,706	54.8%
1/1/2004	\$85,399,470	\$106,026,223	\$20,626,753	80.5%	\$21,566,212	95.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	6	9	12	22	11	8	11	15	12	8
Ordinary Disability	0	0	0	1	0	0	0	0	0	0
Accidental Disability	0	5	2	0	6	2	0	1	0	1
Total Retirements	6	14	14	23	17	10	11	16	12	9
Total Retirees, Beneficiaries and Survivors	344	342	345	346	369	360	357	377	361	362
Total Active Members	494	503	572	563	567	596	610	556	564	582
Pension Payments										
Superannuation	\$2,474,204	\$2,573,672	\$2,663,706	\$2,817,525	\$3,270,483	\$3,312,480	\$3,457,721	\$3,737,116	\$3,974,739	\$4,001,216
Survivor/Beneficiary Payments	212,804	200,793	240,360	273,261	356,971	318,588	332,954	350,861	409,657	405,908
Ordinary Disability	116,732	120,676	119,534	119,503	116,020	119,889	159,018	134,394	129,734	124,905
Accidental Disability	643,700	755,746	811,680	775,169	810,583	996,947	996,473	1,019,222	1,047,860	1,133,688
Other	503,131	562,421	546,514	558,794	610,544	607,805	686,172	602,767	595,261	702,119
Total Payments for Year	<u>\$3,950,571</u>	<u>\$4,213,308</u>	<u>\$4,381,794</u>	<u>\$4,544,252</u>	<u>\$5,155,601</u>	<u>\$5,355,709</u>	<u>\$5,632,338</u>	<u>\$5,844,360</u>	<u>\$6,157,251</u>	<u>\$6,367,836</u>

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