

PERAC AUDIT REPORT



Reading
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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June 4, 2010

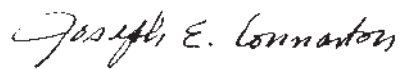
The Public Employee Retirement Administration Commission has completed an examination of the Reading Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management 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.

We commend the Reading Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James T. Sweeney and Martin J. Feeney 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



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$57,667	\$480,483	\$350,765
PRIT Cash Fund	1,420,125	950,255	1,312,910
PRIT Core Fund	79,367,397	68,785,359	99,721,390
Interest Due and Accrued	0	0	0
Accounts Receivable	5,048	35,116	67,691
Accounts Payable	(158,683)	(158,683)	(166,897)
Total	<u>\$80,692,166</u>	<u>\$70,092,529</u>	<u>\$101,285,859</u>
Fund Balances:			
Annuity Savings Fund	\$20,857,207	\$19,155,271	\$17,981,868
Annuity Reserve Fund	5,888,580	6,273,629	6,516,354
Pension Fund	0	0	0
Military Service Fund	20,161	20,061	19,941
Expense Fund	0	0	0
Pension Reserve Fund	53,926,218	44,643,568	76,767,696
Total	<u>\$80,692,166</u>	<u>\$70,092,529</u>	<u>\$101,285,859</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)	\$17,224,029	\$6,332,255	\$0	\$19,822	\$0	\$68,406,006	\$91,982,112
Receipts	1,960,636	195,871	4,107,139	119	554,616	10,096,897	16,915,278
Interfund Transfers	(844,124)	844,124	1,735,207	0	0	(1,735,207)	0
Disbursements	(358,673)	(855,896)	(5,842,346)	0	(554,616)	0	(7,611,531)
Ending Balance (2007)	17,981,868	6,516,354	0	19,941	0	76,767,696	101,285,859
Receipts	2,003,096	191,166	3,917,605	120	491,966	(30,023,652)	(23,419,699)
Interfund Transfers	(448,316)	448,316	2,100,476	0	0	(2,100,476)	0
Disbursements	(381,377)	(882,206)	(6,018,081)	0	(491,966)	0	(7,773,630)
Ending Balance (2008)	19,155,271	6,273,629	0	20,061	0	44,643,568	70,092,529
Receipts	2,302,346	179,092	4,122,354	100	485,099	11,241,763	18,330,755
Interfund Transfers	(330,267)	330,267	1,959,113	0	0	(1,959,113)	0
Disbursements	(270,143)	(894,409)	(6,081,467)	0	(485,099)	0	(7,731,118)
Ending Balance (2009)	<u>\$20,857,207</u>	<u>\$5,888,579</u>	<u>(\$0)</u>	<u>\$20,161</u>	<u>\$0</u>	<u>\$53,926,218</u>	<u>\$80,692,166</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$1,847,263	\$1,778,096	\$1,681,964
Transfers from Other Systems	316,786	85,307	126,921
Member Make Up Payments and Re-deposits	26,626	32,533	53,150
Member Payments from Rollovers	16,355	1,100	0
Investment Income Credited to Member Accounts	<u>95,317</u>	<u>106,060</u>	<u>98,601</u>
Sub Total	<u>2,302,346</u>	<u>2,003,096</u>	<u>1,960,636</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>179,092</u>	<u>191,166</u>	<u>195,871</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	109,539	97,825	85,296
Pension Fund Appropriation	326,020	218,954	236,342
Pension Fund Appropriation	3,686,795	3,600,826	3,785,501
Settlement of Workers' Compensation Claims	0	0	0
Sub Total	<u>4,122,354</u>	<u>3,917,605</u>	<u>4,107,139</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>100</u>	<u>120</u>	<u>119</u>
Sub Total	<u>100</u>	<u>120</u>	<u>119</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>485,099</u>	<u>491,966</u>	<u>554,616</u>
Sub Total	<u>485,099</u>	<u>491,966</u>	<u>554,616</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	583	787	647
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>11,241,181</u>	<u>(30,024,439)</u>	<u>10,096,250</u>
Sub Total	<u>11,241,763</u>	<u>(30,023,652)</u>	<u>10,096,897</u>
Total Receipts	<u>\$18,330,755</u>	<u>(\$23,419,699)</u>	<u>\$16,915,278</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$97,974	\$79,056	\$68,611
Transfers to Other Systems	<u>172,169</u>	<u>302,321</u>	<u>290,062</u>
Sub Total	<u>270,143</u>	<u>381,377</u>	<u>358,673</u>
Annuity Reserve Fund:			
Annuities Paid	894,409	882,206	849,433
Option B Refunds	<u>0</u>	<u>0</u>	<u>6,463</u>
Sub Total	<u>894,409</u>	<u>882,206</u>	<u>855,896</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,875,526	3,910,751	3,784,621
Survivorship Payments	139,529	36,907	37,485
Ordinary Disability Payments	28,697	55,460	55,460
Accidental Disability Payments	734,048	751,378	757,687
Accidental Death Payments	102,147	118,941	110,138
Section 101 Benefits	67,668	71,730	71,931
3 (8) (c) Reimbursements to Other Systems	215,008	206,180	203,124
State Reimbursable COLA's Paid	914,306	861,515	816,043
Chapter 389 Beneficiary Increase Paid	<u>4,537</u>	<u>5,219</u>	<u>5,857</u>
Sub Total	<u>6,081,467</u>	<u>6,018,081</u>	<u>5,842,346</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	46,131	39,447	37,377
Legal Expenses	1,233	4,932	702
Medical Expenses	64	0	0
Travel Expenses	636	663	0
Administrative Expenses	3,495	21,644	5,259
Professional Services	0	0	0
Education and Training	500	0	0
Furniture and Equipment	0	0	0
Management Fees	417,942	425,280	511,278
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	15,000	0	0
Fiduciary Insurance	<u>99</u>	<u>0</u>	<u>0</u>
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>485,099</u>	<u>491,966</u>	<u>554,616</u>
Total Disbursements	<u>\$7,731,118</u>	<u>\$7,773,630</u>	<u>\$7,611,531</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$2,419	\$8,278	\$18,203
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	2,143,800	3,012,184	3,192,862
Commission Recapture	0	0	0
Total Investment Income	<u>2,146,219</u>	<u>3,020,462</u>	<u>3,211,065</u>
Plus:			
Realized Gains	1,609,191	1,125,662	7,742,678
Unrealized Gains	18,936,584	4,874,504	7,711,283
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>20,545,775</u>	<u>6,000,166</u>	<u>15,453,961</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(5,142,650)	(6,188,493)	0
Unrealized Loss	(5,548,555)	(32,067,263)	(7,719,569)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(10,691,205)</u>	<u>(38,255,756)</u>	<u>(7,719,569)</u>
Net Investment Income (Loss)	<u>12,000,789</u>	<u>(29,235,128)</u>	<u>10,945,457</u>
Income Required:			
Annuity Savings Fund	95,317	106,060	98,601
Annuity Reserve Fund	179,092	191,166	195,871
Military Service Fund	100	120	119
Expense Fund	<u>485,099</u>	<u>491,966</u>	<u>554,616</u>
Total Income Required	<u>759,608</u>	<u>789,312</u>	<u>849,207</u>
Net Investment Income (Loss)	<u>12,000,789</u>	<u>(29,235,128)</u>	<u>10,945,457</u>
Less: Total Income Required	<u>759,608</u>	<u>789,312</u>	<u>849,207</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$11,241,181</u>	<u>(\$30,024,440)</u>	<u>\$10,096,250</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$57,667	0.07%	100%
PRIT Cash Fund	1,420,125	1.8%	100%
PRIT Core Fund	<u>79,367,397</u>	<u>98.2%</u>	100%
Grand Total	<u>\$80,845,189</u>	<u>100.0%</u>	

For the year ending December 31, 2009 the rate of return for the investments of the Reading Retirement System was 17.85%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Reading Retirement System averaged 4.21%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Reading Retirement System was 9.37%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Reading Retirement System voted to invest all of the system's assets with the PRIT fund. As a result of that motion, any supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Reading 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 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 is 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 relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain 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 Reading Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 24, 2009:

Regular Compensation

Miscellaneous:

Recovery of Amounts in Excess of the Limitations Set Forth in G.L. c. 32 s. 91A

Any disability retiree from the Reading Retirement System who submits a statement of earnings to the Public Employee Retirement Administration Commission reflecting earnings in excess of the limits set out in G.L. c. 32, § 91A shall repay to the Board the amount of his/her retirement allowance equal to such excess earnings either in a lump sum or over an installment period not to exceed twelve months. Where a member elects to repay the amount owed to the Board in installment payments, the Board secretary will calculate a repayment schedule to recoup the amount owed within the installment period. If any such repayment schedule requires withholding of the entire amount of a retiree's allowance, he/she may need to arrange to pay the percentage of premiums for health and life insurance which would otherwise be deducted from his/her monthly allowance in order to maintain insurance coverage.

August 16, 2004

Membership

Anyone employed by the Town of Reading or the Reading Housing Authority, whose combined total service equals or exceeds 1,690 hours per year shall be enrolled in the Reading Retirement System.

August 16, 2004

Creditable Service

Part-time employees who were enrolled as members of the Reading Retirement System under prior supplemental regulations and who work less than 20 hours per week during the entire period of their membership service shall receive creditable service prorated based upon the hours of the full-time position and the actual service rendered. For example, a member who works 10 hours per week where the full-time position is 40 hours per week will receive 3 months of creditable service for each year ($10/40 = 25\%$). Members working 20 or more hours per week during the entire period of their membership service in the Reading Retirement System will receive 1 full year of creditable service for each year employed provided their entire service is on a part-time basis.

An employee who was initially enrolled as a member of the Reading Retirement System based upon employment in a full-time capacity and who subsequently takes a part-time position shall have the part-time service pro-rated according to the following schedule:

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Pro-Ration Table

Hours per week:	Creditable Service:
Over 14.0	5 months
Over 16.5	6 months
Over 19.0	7 months
Over 21.5	8 months
Over 24.5	9 months
Over 27.0	10 months
Over 29.5	11 months
32.5+	12 months

If a member's average weekly hours are based on a 52-week calendar year are over the amounts in the pro-ration table, the member will be credited with the service as listed

For example, if a member works 22 hours per week for 15 years and then takes a full-time position for 10 additional years, the member would receive a total of 20 years of creditable service. The member would receive 8 months of creditable service for each of the 15 years that he/she worked 22 hours per week based on the above schedule. This amounts to 120 months or 10 years of creditable service. The member would also receive 10 years of creditable service for the ten years of full-time employment for a total of 20 years. Since the member's retirement allowance is calculated utilizing his/her highest three-year average annual rate of regular compensation (i.e., the full-time salary), the loss of creditable service upon conversion from part-time to full-time employment is offset by the increase in the rate of compensation used to calculate the amount of the retirement allowance

June 2, 2003

All eligible members must determine within 180 days of notification by the Reading Retirement Board whether or not to purchase their military service as creditable service. If choosing to purchase this military service, the member has the option of paying for this purchase at any time from the completion of his/her first year of membership until reaching his/her 10th year of membership. If the member has not begun the payback by his/her 10th year as a member, then he/she must begin payroll deductions, make a lump-sum payment, or notify the Reading Retirement Board, in writing, of his/her decision to opt out of the program.

Any buyback under this regulation or general buyback regulation must be made in a lump sum or over an installment period not exceeding 5 years with no less than \$25.00 per pay period.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 7, 1996

Buy-Backs: The Retirement Board will not allow members to buy back for past time worked for the Town since July 1, 1991 when the Town was required to withhold and match social security deductions. By allowing buybacks the Board would, in essence, be requiring the Town to fund two retirements for the same period of employment. If, however, a part-time worker had not contributed to social security, but opted for the ICMA deferral instead, the employee will be allowed to buy back time, as the Town does not match those deductions

March 4, 1991

Anyone employed by the Town of Reading or the Reading Housing Authority on or after July 1, 1991, as a part-time, provisional, part-time temporary, temporary provisional, seasonal or intermittent employee, shall not be eligible to join the Reading Retirement System.

The Reading Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulation available upon written request.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of July 1, 2009.

The actuarial liability for active members was	\$59,493,399
The actuarial liability for inactive members was	952,296
The actuarial liability for retired members was	<u>61,472,752</u>
The total actuarial liability was	121,918,447
System assets as of that date were	<u>83,167,202</u>
The unfunded actuarial liability was	<u>\$38,751,245</u>
The ratio of system's assets to total actuarial liability was	68.2%
As of that date the total covered employee payroll was	\$21,004,628

The normal cost for employees on that date was 8.97% of payroll
 The normal cost for the employer, excluding administrative expenses, was 5.89% of payroll

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

Investment Return: 7.75% per annum
 Rate of Salary Increase: 4.50% per annum (Service based table with ultimate rates of 4.75% and 5.75% for groups 1 and 4 respectively)

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JULY 1, 2009

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)
7/1/2009	\$83,167,202	\$121,918,447	\$38,751,245	68.2%	\$21,004,628	184.5%
7/1/2008*	\$90,968,135	\$116,726,918	\$25,758,783	77.9%	\$20,181,699	127.6%
7/1/2007	\$84,783,719	\$112,011,696	\$27,227,977	75.7%	\$19,312,631	141.0%
7/1/2006*	\$77,151,279	\$106,238,442	\$29,087,163	72.6%	\$18,859,852	154.2%
7/1/2005	\$71,468,124	\$102,152,867	\$30,684,743	70.0%	\$18,047,705	170.0%
7/1/2003	\$62,896,650	\$91,301,520	\$28,404,870	68.9%	\$16,734,364	169.7%

* Liabilities and payroll estimated from prior year's valuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	15	7	12	14	9	13	10	11	9	5
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	3	1	0	2	0	0	1
Total Retirements	15	7	12	17	10	13	12	11	9	6
Total Retirees, Beneficiaries and Survivors	324	319	323	326	326	328	324	323	320	317
Total Active Members	369	379	363	360	351	355	364	358	354	353
Pension Payments										
Superannuation	\$2,337,652	\$2,448,977	\$2,847,111	\$2,972,840	\$3,171,158	\$3,373,556	\$3,578,815	\$3,784,621	\$3,910,751	\$3,875,526
Survivor/Beneficiary Payments	33,763	108,547	33,763	33,763	36,815	67,397	37,485	37,485	36,907	139,529
Ordinary Disability	61,273	35,081	55,460	55,460	55,460	55,460	55,460	55,460	55,460	28,697
Accidental Disability	793,807	768,870	728,389	731,798	773,620	789,691	847,665	757,687	751,378	734,048
Other	643,920	719,261	753,193	839,894	914,414	1,002,522	1,140,398	1,207,093	1,263,585	1,303,666
Total Payments for Year	<u>\$3,870,415</u>	<u>\$4,080,736</u>	<u>\$4,417,916</u>	<u>\$4,633,755</u>	<u>\$4,951,467</u>	<u>\$5,288,626</u>	<u>\$5,659,823</u>	<u>\$5,842,346</u>	<u>\$6,018,081</u>	<u>\$6,081,466</u>

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