

# PERAC AUDIT REPORT



Shrewsbury



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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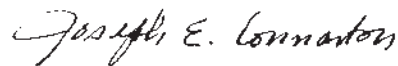
November 10, 2011

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

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDING AND RECOMMENDATION

### **Reconciliation of Cash Accounts**

The Treasurer's office did not provide a complete and formal reconciliation of the retiree payroll or the operating expense bank account to the Retirement Board. The Board ex-officio, Town Accountant, prepares the reconciliation when a discrepancy exists between the bank statement and the general ledger. Since this Board member also votes to approve the warrant and signs the warrant, sound internal control procedures would dictate that all bank accounts be reconciled by someone other than an individual who also approves the warrant. This prohibition would similarly apply to Board staff that prepares the warrant and payments.

**Recommendation:** The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control by segregating reconciliation duties. This process must be completed in a timely manner. The Treasurer must be instructed to provide appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis for all operating accounts. A complete list of unpaid checks and similar reconciling items should be compiled and included with the monthly bank reconciliation. The check number, date issued, payee, and amount of the check should be included as part of the reconciliation provided to the Retirement Board. Any discrepancies with general ledger balances must be promptly identified and resolved.

### **Board Response:**

The reconciliation procedure was changed immediately upon notification by the auditor and the Town Treasurer is now providing the reconciliation of the retiree payroll and operating expense bank account to the retirement board.

### **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	\$3,737,162	\$3,678,565	\$3,072,375
Pooled International Equity Funds	20,160,295	12,082,668	9,607,440
Pooled Domestic Fixed Income Funds	3,435,020	3,903,612	2,781,014
Pooled Global Fixed Income Funds	7,066,208	6,632,819	5,864,979
PRIT Cash Fund	0	0	0
PRIT Core Fund	32,266,037	28,500,787	24,313,054
Interest Due and Accrued	361	47	1,084
Accounts Receivable	32,209	5,661	0
Accounts Payable	(563,380)	(45,261)	(45,382)
<b>Total</b>	<u>\$66,133,912</u>	<u>\$58,606,547</u>	<u>\$48,878,658</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$21,648,841	\$20,793,052	\$19,434,350
Annuity Reserve Fund	4,147,403	3,917,848	3,718,540
Pension Fund	5,863,066	3,427,729	3,753,870
Military Service Fund	43,099	32,514	31,750
Expense Fund	0	0	0
Pension Reserve Fund	34,431,504	30,435,404	21,940,149
<b>Total</b>	<u>\$66,133,912</u>	<u>\$58,606,547</u>	<u>\$48,878,658</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)	\$18,637,467	\$3,102,987	\$4,255,579	\$30,629	\$0	\$41,230,558	\$67,257,220
Receipts	2,270,931	101,051	3,431,959	1,121	412,773	(19,288,790)	(13,070,955)
Interfund Transfers	(1,075,827)	1,077,446	0	0	0	(1,619)	0
Disbursements	(398,220)	(562,945)	(3,933,669)	0	(412,773)	0	(5,307,606)
Ending Balance (2008)	19,434,350	3,718,540	3,753,870	31,750	0	21,940,149	48,878,658
Receipts	2,380,508	114,436	3,325,862	765	401,788	9,100,556	15,323,914
Interfund Transfers	(717,556)	717,498	605,359	0	0	(605,300)	0
Disbursements	(304,250)	(632,626)	(4,257,362)	0	(401,788)	0	(5,596,026)
Ending Balance (2009)	20,793,052	3,917,848	3,427,729	32,514	0	30,435,404	58,606,547
Receipts	2,211,785	118,953	3,398,866	10,585	468,622	7,589,482	13,798,293
Interfund Transfers	(792,352)	792,352	3,593,382	0	0	(3,593,382)	0
Disbursements	(563,644)	(681,750)	(4,556,911)	0	(468,622)	0	(6,270,927)
Ending Balance (2010)	<u>\$21,648,841</u>	<u>\$4,147,403</u>	<u>\$5,863,066</u>	<u>\$43,099</u>	<u>\$0</u>	<u>\$34,431,504</u>	<u>\$66,133,912</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,015,360	\$2,022,895	\$2,037,940
Transfers from Other Systems	125,547	234,365	86,138
Member Make Up Payments and Re-deposits	5,029	29,038	39,650
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>65,850</u>	<u>94,210</u>	<u>107,204</u>
Sub Total	<u>2,211,785</u>	<u>2,380,508</u>	<u>2,270,931</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>118,953</u>	<u>114,436</u>	<u>101,051</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	102,919	95,806	87,600
Pension Fund Appropriation	150,133	158,222	170,223
Settlement of Workers' Compensation Claims	3,138,313	3,071,834	3,174,136
	<u>7,500</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,398,866</u>	<u>3,325,862</u>	<u>3,431,959</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	10,508	606	937
Investment Income Credited to the Military Service Fund	<u>77</u>	<u>159</u>	<u>184</u>
Sub Total	<u>10,585</u>	<u>765</u>	<u>1,121</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>468,622</u>	<u>401,788</u>	<u>412,773</u>
Sub Total	<u>468,622</u>	<u>401,788</u>	<u>412,773</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	46,680	47,975	45,653
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,459	3,854	3,662
Miscellaneous Income	1,045	4,430	0
Excess Investment Income (Loss)	<u>7,540,298</u>	<u>9,044,297</u>	<u>(19,338,106)</u>
Sub Total	<u>7,589,482</u>	<u>9,100,556</u>	<u>(19,288,790)</u>
<b>Total Receipts, Net</b>	<u>\$13,798,293</u>	<u>\$15,323,914</u>	<u>(\$13,070,955)</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$280,364	\$200,097	\$214,957
Transfers to Other Systems	<u>283,281</u>	<u>104,153</u>	<u>183,263</u>
Sub Total	<u>563,644</u>	<u>304,250</u>	<u>398,220</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	681,750	632,626	562,945
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>681,750</u>	<u>632,626</u>	<u>562,945</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	3,245,493	3,036,368	2,799,747
Survivorship Payments	120,605	113,099	104,366
Ordinary Disability Payments	33,025	32,305	31,585
Accidental Disability Payments	723,408	712,872	713,215
Accidental Death Payments	203,945	147,036	208,156
Section 101 Benefits	38,512	37,390	36,301
3 (8) (c) Reimbursements to Other Systems	191,923	178,292	40,299
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,556,911</u>	<u>4,257,362</u>	<u>3,933,669</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	3,000	3,000	3,000
Salaries	43,991	44,156	44,083
Legal Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Medical Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Travel Expenses	1,879	0	5,243
Administrative Expenses	1,836	3,096	32,585
Professional Services	12,700	0	0
Education and Training	1,956	900	0
Furniture and Equipment	<u>0</u>	<u>760</u>	<u>138</u>
Management Fees	314,960	279,227	266,667
Custodial Fees	46,834	29,515	32,150
Consultant Fees	25,000	25,000	25,000
Service Contracts	12,110	12,110	99
Fiduciary Insurance	<u>4,357</u>	<u>4,024</u>	<u>3,807</u>
Sub Total	<u>468,622</u>	<u>401,788</u>	<u>412,773</u>
<b>Total Disbursements</b>	<u>\$6,270,927</u>	<u>\$5,596,026</u>	<u>\$5,307,606</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Investment Income Received From:</b>			
Cash	\$3,832	\$4,907	\$61,632
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	233,553	148,647	241,811
Pooled or Mutual Funds	853,737	765,151	413,031
Commission Recapture	<u>234</u>	<u>422</u>	<u>3,260</u>
<b>Total Investment Income</b>	<u>1,091,355</u>	<u>919,127</u>	<u>719,734</u>
<b>Plus:</b>			
Realized Gains	1,692,058	1,652,007	2,888,883
Unrealized Gains	10,734,092	13,085,942	4,070,086
Interest Due and Accrued - Current Year	<u>361</u>	<u>47</u>	<u>1,084</u>
Sub Total	<u>12,426,511</u>	<u>14,737,995</u>	<u>6,960,053</u>
<b>Less:</b>			
Realized Loss	(439,802)	(2,270,024)	(7,659,253)
Unrealized Loss	(4,884,217)	(3,731,125)	(18,728,450)
Interest Due and Accrued - Prior Year	<u>(47)</u>	<u>(1,084)</u>	<u>(8,978)</u>
Sub Total	<u>(5,324,066)</u>	<u>(6,002,232)</u>	<u>(26,396,681)</u>
<b>Net Investment Income (Loss)</b>	<u>8,193,800</u>	<u>9,654,890</u>	<u>(18,716,894)</u>
<b>Income Required:</b>			
Annuity Savings Fund	65,850	94,210	107,204
Annuity Reserve Fund	118,953	114,436	101,051
Military Service Fund	77	159	184
Expense Fund	<u>468,622</u>	<u>401,788</u>	<u>412,773</u>
<b>Total Income Required</b>	<u>653,502</u>	<u>610,594</u>	<u>621,212</u>
Net Investment Income (Loss)	<u>8,193,800</u>	<u>9,654,890</u>	<u>(18,716,894)</u>
Less: Total Income Required	<u>653,502</u>	<u>610,594</u>	<u>621,212</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$7,540,298</u>	<u>\$9,044,297</u>	<u>(\$19,338,106)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,737,162	5.6%
Pooled International Equity Funds	20,160,295	30.2%
Pooled Domestic Fixed Income Funds	3,435,020	5.2%
Pooled Global Fixed Income Funds	7,066,208	10.6%
PRIT Core Fund	<u>32,266,037</u>	<u>48.4%</u>
<b>Grand Total</b>	<b><u>\$66,664,722</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2010, the rate of return for the investments of the Shrewsbury Retirement System was 14.05%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Shrewsbury Retirement System averaged 4.21%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Shrewsbury Retirement System was 9.20%.

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 26-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 Shrewsbury Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

December 20, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Shrewsbury Retirement Board is authorized to modify its international equity mandate with State Street Global Advisors. The Board has been previously authorized to invest in four separate funds: the International Alpha Fund, the Small Cap Alpha Fund, the International Growth Opportunities Fund, and the Active Emerging Markets Fund. Under the new structure, the Board will invest in the same four funds but will do so within the All International Allocation Common Trust Fund, the objective of which is to invest in and make tactical shifts among the four constituent funds. Under the new structure, the Board's management and custody fees will be slightly reduced.

April 8, 2002

16.08

In accordance with Investment Guideline 99-2, the Shrewsbury Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IR&M Core Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

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

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire 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 \$312 per year in systems 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 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 Shrewsbury Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership

March 25, 2010:

Those employees who earn \$5,000 or more per calendar year are eligible for membership in the Shrewsbury Contributory Retirement System.

May 22, 1991:

Part-time Employees: Effective July 1, 1991, any part-time employee who works 20 hours or more per week shall become a member of the retirement system.

#### Creditable Service

August 2, 2002:

Service Liability – No liability for service will be accepted for service with the Town of Shrewsbury which did not entitle the employee to membership in the Shrewsbury Retirement System (worked under 20 hours per week on a permanent basis) unless the employee subsequently becomes a member of the Shrewsbury Retirement System purchases said service while employed by the Town of Shrewsbury.

November 29, 1994:

Part-time Employees: Members designated as part-time employees (those who work less than 37 1/2 hours per week) shall be granted creditable service according to the following:

Hours per week	Creditable Service
20 but not less than 22.5 -----	7 Months
22.5 but not less than 25.5-----	8 Months
25.5 but not less than 28.5-----	9 Months
28.5 but not less than 32-----	10 Months
32 but not less than 35-----	11 Months
35 + -----	12 Months

- Any member whose hours per week are reduced below 20 shall be granted creditable service at the 20 hour level.

September 20, 1990:

Buy-backs Buy Back of Prior Service: The length of creditable service an individual will be eligible to buy back will be equal to actual time worked.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Regular Compensation

January 29, 1988:

- Staff Salary: Determined by vote of the board in accordance with town salary schedule.
- Staff Benefits: Determined by vote of the board in accordance with but not limited to the Personnel bylaw.

Disclosure: Board shall perform within the disclosures law and open meeting law of the Commonwealth;

#### Purchase of prior service:

These part-time employees shall then have the privilege of purchasing this past service;

- C.E.T.A. Employees: Members may purchase their C.E.T.A. employment time with creditable service pro-rated based upon the actual hours worked.

November 29, 1994: Meeting: 2nd Friday of month; changes may be made by the board;

#### Travel Regulations

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

(<http://www.mass.gov/perac/04travelreg/shrewsburytravelreg.html>).



## 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	\$49,382,314
The actuarial liability for retired members, beneficiaries, and inactive was	<u>41,677,227</u>
The total actuarial liability was	\$91,059,541
System assets as of that date were	<u>64,467,201</u>
The unfunded actuarial liability was	<u>\$26,592,340</u>
The ratio of system's assets to total actuarial liability was	70.8%
As of that date the total covered employee payroll was	\$22,460,537

The normal cost for employees on that date was 8.3% of payroll  
 The normal cost for the employer (including expenses) was 3.6% of payroll

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

Investment Return: 8.25% per annum  
 Rate of Salary Increase: 2.50% for 2010, 3.0% for 2011, 3.5% thereafter

#### 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 )
1/1/2010	\$64,467,201	\$91,059,541	\$26,592,340	70.8%	\$22,460,537	118.4%
1/1/2008	\$65,665,411	\$85,256,692	\$19,591,281	77.0%	\$22,402,987	87.4%
1/1/2006	\$54,147,807	\$75,979,303	\$21,831,496	71.3%	\$19,896,839	109.7%
1/1/2004	\$50,857,118	\$65,276,552	\$14,419,434	77.9%	\$17,995,844	80.1%

## 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	4	5	2	6	3	6	5	13	9	11
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	0	1	1	1	1	1	1	0	1	0
<b>Total Retirements</b>	4	6	3	7	4	7	6	13	11	11
Total Retirees, Beneficiaries and Survivors	239	231	228	231	226	236	232	236	230	229
Total Active Members	546	466	489	510	515	651	672	665	604	656
<b>Pension Payments</b>										
Superannuation	\$2,028,049	\$2,094,786	\$2,122,041	\$2,234,882	\$2,405,429	\$2,446,285	\$2,592,116	\$2,799,747	\$3,036,368	\$3,245,493
Survivor/Beneficiary Payments	69,112	66,280	68,187	70,130	72,236	85,738	97,133	104,366	113,099	120,605
Ordinary Disability	36,734	36,238	37,234	38,239	39,251	40,273	37,145	31,585	32,305	33,025
Accidental Disability	475,566	552,169	653,876	615,143	636,980	671,758	720,524	713,215	712,872	723,408
Other	254,997	282,500	372,282	394,506	400,967	389,999	418,980	284,756	362,718	434,380
<b>Total Payments for Year</b>	<u>\$2,864,459</u>	<u>\$3,031,973</u>	<u>\$3,253,621</u>	<u>\$3,352,899</u>	<u>\$3,554,864</u>	<u>\$3,634,053</u>	<u>\$3,865,898</u>	<u>\$3,933,669</u>	<u>\$4,257,362</u>	<u>\$4,556,911</u>

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