

PERAC AUDIT REPORT



Webster
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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JOSEPH E. CONNARTON, *Executive Director*

January 4, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Webster Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiner 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. Board Member Attendance:

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 39 percent of meetings held during the audit period. Another member missed 33 percent of the meetings in that same time frame. The result is an attendance rate for two Board members that was well below the 75 percent minimum considered reasonable.

An official meeting was not held in February 2010 due to the lack of a quorum. This violates G.L. c. 32, § 20 (5) (a) which requires boards “shall meet at least once in each month for the transaction of such business as may properly come before it.”

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

Board Response:

The Board members will make an effort to attend all scheduled Board Meetings. If a Board member is unable to attend certain scheduled meetings, the date of such meetings, on approval of the Board, will be rescheduled to accommodate the member.

2. Active Members Over Seventy Years Old:

A sample of members who were age seventy or over 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.

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. 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:

All members who have attained the age of 70 years of age or over were sent the form “Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70”, pursuant to G.L. c. 32, §90 (G)(3/4). All forms were completed, signed, and returned to the Retirement office. The ages of all members will be checked annually to make sure that any member nearing the age of 70 will receive the above form to complete and sign.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Option C Retirees

An inspection of retiree files provided no documentation that the age of the beneficiary was confirmed for retirees who selected Option C.

Recommendation: The exact age of the Option C beneficiary is critical to the calculation of the retirement benefit. The Board should confirm the age of the beneficiary by inspecting a birth certificate or other supporting documentation that substantiates the date of birth. A copy of this record should be maintained in the file.

Board Response:

Requests have been sent out to all Option C Retirees for the birth certificate of the spouse. All requested birth certificates have been received.

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
Net Assets Available For Benefits:			
Cash	\$2,341,882	\$963,957	\$245,148
Pooled Domestic Equity Funds	1,872,141	3,770,956	4,320,350
Pooled International Equity Funds	2,649,893	2,270,954	1,696,425
Pooled Global Equity Funds	5,255,054	1,972,975	3,922
Pooled Domestic Fixed Income Funds	4,331,591	3,836,752	3,574,305
Pooled Alternative Investment Funds	663,274	487,781	1,967,526
Pooled Real Estate Funds	1,742,223	1,543,630	1,672,727
Hedge Funds	1,816,512	1,709,040	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	0	14	45
Accounts Receivable	2,566	1,321,353	923,319
Accounts Payable	(15,000)	(12,332)	(15,372)
Total	<u>\$20,660,137</u>	<u>\$17,865,081</u>	<u>\$14,388,395</u>
Fund Balances:			
Annuity Savings Fund	\$7,524,655	\$7,306,813	\$6,890,635
Annuity Reserve Fund	2,336,970	2,134,801	1,994,253
Pension Fund	718,421	471,963	244,660
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	10,080,090	7,951,503	5,258,847
Total	<u>\$20,660,137</u>	<u>\$17,865,081</u>	<u>\$14,388,395</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)	\$6,609,365	\$1,881,641	\$208,890	\$1,916	\$0	\$10,749,199	\$19,451,011
Receipts	799,735	58,204	1,987,099	0	234,650	(5,493,710)	(2,414,022)
Interfund Transfers	(336,573)	333,216	1,916	(1,916)	0	3,358	0
Disbursements	(181,891)	(278,808)	(1,953,245)	0	(234,650)	0	(2,648,594)
Ending Balance (2008)	6,890,635	1,994,253	244,660	0	0	5,258,847	14,388,395
Receipts	901,145	58,586	2,226,700	0	226,804	2,690,571	6,103,806
Interfund Transfers	(374,350)	372,264	0	0	0	2,085	(0)
Disbursements	(110,617)	(290,302)	(1,999,397)	0	(226,804)	0	(2,627,120)
Ending Balance (2009)	7,306,813	2,134,801	471,963	0	0	7,951,503	17,865,081
Receipts	884,457	61,056	2,357,637	0	239,653	2,131,937	5,674,740
Interfund Transfers	(457,232)	460,583	0	0	0	(3,351)	0
Disbursements	(209,383)	(319,470)	(2,111,179)	0	(239,653)	0	(2,879,684)
Ending Balance (2010)	<u>\$7,524,655</u>	<u>\$2,336,970</u>	<u>\$718,421</u>	<u>\$0</u>	<u>\$0</u>	<u>\$10,080,090</u>	<u>\$20,660,137</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$769,081	\$734,643	\$724,105
Transfers from Other Systems	87,077	109,992	19,853
Member Make Up Payments and Re-deposits	6,557	24,403	19,022
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>21,742</u>	<u>32,106</u>	<u>36,755</u>
Sub Total	<u>884,457</u>	<u>901,145</u>	<u>799,735</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>61,056</u>	<u>58,586</u>	<u>58,204</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	86,970	87,099	87,099
Pension Fund Appropriation	36,049	39,601	0
Settlement of Workers' Compensation Claims	2,234,618	2,100,000	1,900,000
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,357,637</u>	<u>2,226,700</u>	<u>1,987,099</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>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>239,653</u>	<u>226,804</u>	<u>234,650</u>
Sub Total	<u>239,653</u>	<u>226,804</u>	<u>234,650</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	9,002	8,845	8,746
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	135	937	136
Excess Investment Income (Loss)	<u>2,122,801</u>	<u>2,680,790</u>	<u>(5,502,592)</u>
Sub Total	<u>2,131,937</u>	<u>2,690,571</u>	<u>(5,493,710)</u>
Total Receipts, Net	<u>\$5,674,740</u>	<u>\$6,103,806</u>	<u>(\$2,414,022)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$90,997	\$69,741	\$159,371
Transfers to Other Systems	<u>118,387</u>	<u>40,876</u>	<u>22,521</u>
Sub Total	<u>209,383</u>	<u>110,617</u>	<u>181,891</u>
Annuity Reserve Fund:			
Annuities Paid	319,470	290,302	278,808
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>319,470</u>	<u>290,302</u>	<u>278,808</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,592,534	1,468,681	1,424,351
Survivorship Payments	81,731	74,802	76,574
Ordinary Disability Payments	34,974	34,262	33,560
Accidental Disability Payments	303,464	299,337	296,915
Accidental Death Payments	15,955	15,490	15,039
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	82,521	92,015	92,784
State Reimbursable COLA's Paid	0	14,810	14,023
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,111,179</u>	<u>1,999,397</u>	<u>1,953,245</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	15,174	15,174	15,174
Salaries	55,754	55,754	54,870
Legal Expenses	752	0	210
Medical Expenses	0	0	0
Travel Expenses	0	0	0
Administrative Expenses	1,113	2,207	2,436
Management Fees	82,923	75,225	77,125
Custodial Fees	32,500	28,750	30,065
Consultant Fees	37,500	33,750	35,000
Service Contracts	12,000	14,149	18,079
Fiduciary Insurance	<u>1,937</u>	<u>1,794</u>	<u>1,691</u>
Sub Total	<u>239,653</u>	<u>226,804</u>	<u>234,650</u>
Total Disbursements	<u>\$2,879,684</u>	<u>\$2,627,120</u>	<u>\$2,648,594</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$16,757	\$21,282	\$5,846
Pooled or Mutual Funds	359,807	291,432	246,581
Commission Recapture	0	0	0
Total Investment Income	<u>376,564</u>	<u>312,714</u>	<u>252,427</u>
Plus:			
Realized Gains	432,051	173,485	43,344
Unrealized Gains	4,152,656	4,459,993	3,893,202
Interest Due and Accrued - Current Year	0	14	45
Sub Total	<u>4,584,707</u>	<u>4,633,492</u>	<u>3,936,591</u>
Less:			
Realized Loss	(11,867)	(210,024)	(2,097,648)
Unrealized Loss	(2,504,139)	(1,737,851)	(7,264,342)
Interest Due and Accrued - Prior Year	(14)	(45)	(10)
Sub Total	<u>(2,516,020)</u>	<u>(1,947,920)</u>	<u>(9,362,001)</u>
Net Investment Income (Loss)	<u>2,445,251</u>	<u>2,998,286</u>	<u>(5,172,983)</u>
Income Required:			
Annuity Savings Fund	21,742	32,106	36,755
Annuity Reserve Fund	61,056	58,586	58,204
Military Service Fund	0	0	0
Expense Fund	<u>239,653</u>	<u>226,804</u>	<u>234,650</u>
Total Income Required	<u>322,450</u>	<u>317,496</u>	<u>329,609</u>
Net Investment Income (Loss)	<u>2,445,251</u>	<u>2,998,286</u>	<u>(5,172,983)</u>
Less: Total Income Required	<u>322,450</u>	<u>317,496</u>	<u>329,609</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,122,801</u>	<u>\$2,680,790</u>	<u>(\$5,502,592)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,341,882	11.3%
Pooled Domestic Equity Funds	1,872,141	9.1%
Pooled International Equity Funds	2,649,893	12.8%
Pooled Global Equity Funds	5,255,054	25.4%
Pooled Domestic Fixed Income Funds	4,331,591	21.0%
Pooled Alternative Investment Funds	663,274	3.2%
Pooled Real Estate Funds	1,742,223	8.4%
Hedge Funds	1,816,512	8.8%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$20,672,571</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Webster Retirement System was 14.78%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Webster Retirement System averaged 4.54%. 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 Webster Retirement System was 8.14%.

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

June 27, 2007

19.01(4), 19.01(8)

Having successfully diversified its portfolio by investing in real estate and private equity in recent years, the Webster Retirement Board is authorized to increase its holdings in real estate from 5% to 10% and its holdings in private equity from 3% to 5%. These higher limits currently apply to boards with assets in excess of \$50 million for real estate and \$25 million for private equity. Webster's assets are currently \$18 million.

March 7, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Webster Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

February 3, 2006

16.08

In accordance with Investment Guideline 99-2, the Webster Retirement Board is authorized to make a modest modification to its small/mid cap core equity account managed by Independence Investments. The Board will transfer its assets from one composite separately managed account to two commingled funds, one for small cap and one for mid cap. In addition to gaining operational efficiencies, the Board expects that this structure will enable it to better monitor the performance of the overall account. There is not change in investment universe or in strategy and the overall account is still run by Independence Investments' small/mid cap portfolio management team.

December 10, 2003

16.08

The Webster Retirement Board is authorized to modify its investment management mandate with Loomis, Sayles & Company. After many years of utilizing Loomis Sayles as a balanced account manager, the Board has voted to retain Loomis only for fixed income. The Board will utilize a commingled fund, the Loomis Sayles Investment Grade Bond Fund, that has the same strategy and benchmark as the existing account. The Board has long been satisfied with Loomis Sayles' overall level of service.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Webster 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 \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

DEATH IN ACTIVE SERVICE

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair 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 Webster Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 9, 2009

Creditable Service – Call Firefighters

In the event that any call firefighter should take a full time position in any other department, whether it be in Webster, or in any other Town in the Commonwealth having a Retirement System regulated by PERAC, at retirement he or she will not be entitled to the one full year of creditable service for each year served as a call firefighter, but creditable service will be adjusted in accordance with General Laws, Chapter 32, Section 4(2) (b).

September 2, 2004

Buy-backs

An active police officer [who is a member of the retirement system] may buy back his or her permanent intermittent time, provisional full-time, or provisional part-time employment. If he or she wishes to pay back into the system for previous time worked, the calculation of creditable service will be based on actual hours worked. Overtime or extra paid details are not calculated in the buyback. Auxiliary and/or reserve status is not applicable to buy back.

January 13, 2004

Creditable Service- Call Firefighters

To allow call firefighters to receive one (1) year of creditable service for each full year of service in the Webster Fire Department, provided they are permanent call fire fighters with a stated weekly, monthly, or semi-annual rate of compensation. Call fire fighters of the Town of Webster not previously allowed into the Retirement System may request membership, and may buy back the time they were employed as a call firefighter and not eligible for membership, provided said member pays back into the system an amount equal to that which would have been deducted from wages, plus interest. Base salary only shall be considered regular compensation for deduction purposes and in the calculation of retirement benefits. The buy backs may be made in regular weekly or monthly payments, through payroll deduction, or other regular payments convenient for the member, but must be paid in full before retirement.

August 20, 2001

Creditable Service

In all cases involving part-time, provisional, temporary, temporary provisional, per diem, seasonal, or intermittent employment or service of any employee in any governmental unit prior to membership, said member shall be entitled to buy back said service, provided that said member subsequently became a member of the town of Webster Contributory Retirement System and said member pays back into the system an amount equal to that which would have been deducted from wages plus interest. Creditable service shall be computed to credit the member for that proportion of a normal year which the number of hours actually worked during that year bears to the normal working hours from the department under which the employee worked.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 2, 1999

Buy-backs

Any member eligible to purchase military service under the provisions of Chapter 71 of the Acts of 1996 must render payment for the cost of such military service buyback in a lump sum payment or two installments, either of which must be made within a 12 month period commencing with the date of acceptance of the application by the Board.

September 2, 2004

Buy-backs

An active police officer [who is a member of the retirement system] may buy back his or her permanent intermittent time, provisional full-time, or provisional part-time employment. If he or she wishes to pay back into the system for previous time worked, the calculation of creditable service will be based on actual hours worked. Overtime or extra paid details are not calculated in the buyback. Auxiliary and/or reserve status is not applicable to buy back.

January 13, 2004

Creditable Service - Call Firefighters

To allow call firefighters to receive one (1) year of creditable service for each full year of service in the Webster Fire Department, provided they are permanent call fire fighters with a stated weekly, monthly, or semi-annual rate of compensation. Call fire fighters of the Town of Webster not previously allowed into the Retirement System may request membership, and may buy back the time they were employed as a call firefighter and not eligible for membership, provided said member pays back into the system an amount equal to that which would have been deducted from wages, plus interest. Base salary only shall be considered regular compensation for deduction purposes and in the calculation of retirement benefits. The buy backs may be made in regular weekly or monthly payments, through payroll deduction, or other regular payments convenient for the member, but must be paid in full before retirement.

August 20, 2001

Creditable Service

In all cases involving part-time, provisional, temporary, temporary provisional, per diem, seasonal, or intermittent employment or service of any employee in any governmental unit prior to membership, said member shall be entitled to buy back said service, provided that said member subsequently became a member of the town of Webster Contributory Retirement System and said member pays back into the system an amount equal to that which would have been deducted from wages plus interest. Creditable service shall be computed to credit the member for that proportion of a normal year which the number of hours actually worked during that year bears to the normal working hours from the department under which the employee worked.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 2, 1999

Buy-Backs

Any member eligible to purchase military service under the provisions of Chapter 71 of the Acts of 1996 must render payment for the cost of such military service buyback in a lump sum payment or two installments, either of which must be made within a 12 month period commencing with the date of acceptance of the application by the Board.

January 19, 1999

Membership

Membership is required for all full-time permanent Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 31 1/2 hours per week. A full-time permanent town position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence.

Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 20 hours but less than 31 1/2 hours per week are considered permanent part-time employees. Such employees shall become members of the Webster Contributory Retirement System upon the completion of six months of calendar service. A permanent part-time position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence.

All part-time, provisional, temporary, temporary provisional, seasonal or intermittent employees who are scheduled to work less than 20 hours per week and/or less than 52 calendar weeks of uninterrupted employment unless for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence are not eligible for membership into the Webster Retirement System.

June 14, 1996

Membership

New Police Academy recruits are not eligible to become members of the Webster Contributory Retirement System until successful completion of the Police Academy.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2010.

The actuarial liability for active members was	\$21,114,550
The actuarial liability for vested terminated members was	506,839
The actuarial liability for non-vested terminated members was	106,363
The actuarial liability for retired members was	<u>19,932,660</u>
The total actuarial liability was	\$41,660,412
System assets as of that date were	<u>20,544,843</u>
The unfunded actuarial liability was	<u>\$21,115,569</u>
The ratio of system's assets to total actuarial liability was	49.3%
As of that date the total covered employee payroll was	\$8,249,463

The normal cost for employees on that date was 8.4% of payroll

The normal cost for the employer was 5.2% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by service and group

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	\$20,544,843	\$41,660,412	\$21,115,569	49.3%	\$8,249,463	256.0%
1/1/2008	\$18,848,406	\$38,118,310	\$19,269,904	49.4%	\$7,720,918	249.6%
1/1/2006	\$15,223,489	\$33,802,585	\$18,579,096	45.0%	\$6,804,612	273.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	4	10	4	0	6	4	3	7	7	8
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	1
Total Retirements	4	10	4	0	6	4	3	7	7	9
Total Retirees, Beneficiaries and Survivors	126	126	125	126	134	131	125	132	131	132
Total Active Members	229	193	198	236	241	245	245	236	252	248
Pension Payments										
Superannuation	\$901,972	\$925,110	\$1,145,029	\$1,226,372	\$1,281,669	\$1,317,969	\$1,357,461	\$1,424,351	\$1,468,681	\$1,592,534
Survivor/Beneficiary Payments	66,285	82,541	87,414	81,984	77,894	75,498	78,190	76,574	74,802	81,731
Ordinary Disability	28,594	29,549	30,195	30,850	31,514	31,848	32,525	33,560	34,262	34,974
Accidental Disability	210,425	231,180	233,470	296,782	258,492	328,532	287,784	296,915	299,337	303,464
Other	93,522	100,599	101,413	113,340	94,328	114,213	111,441	121,846	122,316	98,476
Total Payments for Year	<u>\$1,300,798</u>	<u>\$1,368,979</u>	<u>\$1,597,521</u>	<u>\$1,749,328</u>	<u>\$1,743,897</u>	<u>\$1,868,060</u>	<u>\$1,867,401</u>	<u>\$1,953,245</u>	<u>\$1,999,397</u>	<u>\$2,111,179</u>

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