

PERAC AUDIT REPORT



Worcester Regional
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances	6
Statement of Receipts.....	7
Statement of Disbursements.....	8
Investment Income	9
Schedule of Allocation of Investments Owned.....	10
Supplementary Investment Regulations	11
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	12
Note 2 - Significant Accounting Policies	19
Note 3 - Supplementary Membership Regulations.....	21
Note 4 - Administration of the System	22
Note 5 - Actuarial Valuation and Assumptions.....	23
Note 6 - Membership Exhibit.....	24

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY | GREGORY R. MENNIS

JOSEPH E. CONNARTON, *Executive Director*

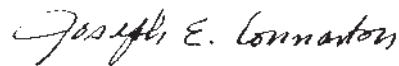
March 16, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Worcester Regional 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, with the exception of those noted in the findings presented in this report.

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

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Membership:

The Worcester Regional Retirement System has approximately 9,000 members from 49 towns and 46 other participating units for a total of 95 employers. Ensuring all retirement deductions are submitted accurately is a significant and essential function, and the staff is to be commended for their efforts. As part of our normal audit procedures, PERAC auditors reviewed payroll register information from 84 member units to determine member's rates, base deductions, and the 2% additional contributions for those members who make over \$30,000 on an annualized basis, and were hired after January 1, 1979, were accurate. This process identified issues with the payroll information submitted by several member units.

- Several pay types were excluded from retirement deductions even though they appear to be defined within the regulations pertaining to regular compensation. Similarly, pay types were included in retirement deductions even though they do not appear to qualify within these regulations were identified.
- Some employer units rely on specific fixed amounts when applying the 2% additional contribution for members in that payroll period. This results in errors for deviations from the standard payroll data such as pay raises and similar adjustments. The 2% deduction is more accurately calculated using a formula that applies to each pay period on an annualized basis.
- An employer unit was found to be subsidizing the additional 2% contributions for its employees. The result is that required contributions have not been withheld from these members' paychecks. It was determined the Retirement System has been receiving the correct amount due from this employer unit and was not aware of this practice.
- Members who were assigned incorrect contribution rates based on their membership entry date were identified resulting in a refund of a portion of their accumulated retirement funds.

The system has been excluding from membership persons assigned to a specific job title within their existing contractual status, and has also returned funds contributed on behalf of these employees directly to the employing units. The system disputes the validity of their membership for all of the periods they were assigned to this specific job title, citing correspondence and supplementary regulations dating back to 1993 and 1994. This issue is currently on appeal to the Division of Administrative Law Appeals.

Recommendation: The Retirement System should be notified of and review all new pay codes to determine if they qualify as regular compensation. In addition, the Retirement System should regularly request and monitor payroll register detail reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should receive copies of all memos and/or notices relating to new regulations and other changes involving regular compensation and contribution rates.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The employer units must clearly identify the distinction between compensation qualified for retirement and that which is excluded. We encourage all payroll units to engage their payroll provider in an effort to upgrade the quality of the information provided to the Retirement System in support of member contributions.

The employer units must comply with G.L. c. 32, § 22(1) (b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. The employer units must cease to rely on manually input fixed amounts for the additional 2% contribution. This practice is not a valid financial control. It relies on a visual comparison that has been demonstrated to be unreliable. The proper calculation formula, which can be found in PERAC Memo #43/1999, must be used to accommodate frequent adjustments to base salary and other pay. Employers are not allowed to directly subsidize the additional 2% contributions for their employees pursuant to G.L. c. 32 Section 22 (1) (b1/2), which states "the treasurer or other disbursing officer in charge of payroll in any governmental unit to which a system pertains, shall withhold on each pay day, in addition to the amounts withheld pursuant to paragraph (b) an additional two per cent of such member's regular compensation over thirty thousand dollars, ..."

Board Response:

The Board offers a number of training sessions and workshops each year for treasurers, payroll clerks, and human resource personnel. We continuously work with the member units and when a problem is found, it is addressed.

2. Retiree Files

An inspection of a sample of recent retirees' folders revealed that the compensation used to calculate a member's high three-year average is based on the contributions received by the system on behalf of the member. Actual payroll information was not documented in the files inspected.

Recommendation: The Board staff developed a form to be sent to the Treasurer of a retiree's employing unit(s) so that salary and compensation amounts could be verified. This form will also allow the Board to confirm that retirement contributions are being deducted accurately on an on-going basis. This form was created during the course of the audit process.

Board Response:

This has been a time-honored practice with this Board and most others. PERAC has approved countless of these calculations over the years without hesitation. Nonetheless, we have now implemented this new "best practice" with the assistance of PERAC Auditor Scott Henderson.

3. Member Refunds

A sample of thirty refunds to members inspected during the audit period disclosed the incorrect calculation of the amount of interest to be returned to the member in four cases. Two of these included interest accrued up to their actual refund dates when the funds had been on deposit for more than two years after termination of active service.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: G.L. c. 32, § 22 (6) (d) specifies that “no regular interest shall be included in the amount of any accumulated total deductions which are to be paid to the member for any period after the expiration of two years from the end of the month immediately preceding the date of his termination of service.” This “two-year rule” for interest must be followed for all refunds to inactive members. Repayment of amounts refunded in excess of the established limits should be requested from all recipients.

Board Response:

The Board has a long standing operating procedure in place to triple check refund calculations. The procedure was not followed in the cases cited. The errors have been corrected and repayment has been requested. The staff person is no longer employed by the 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,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$5,622,803	\$4,273,006	\$21,798,682
Short Term Investments	0	0	3,812,405
Equities	0	0	27
Pooled Alternative Investment Funds	10,180,480	8,673,895	26,047,617
Pooled Real Estate Funds	14,707,181	21,643,205	39,021,683
PRIT Cash Fund	0	0	0
PRIT Core Fund	312,978,284	261,882,606	331,868,950
Interest Due and Accrued	0	0	10,007
Accounts Receivable	1,491,906	1,755,015	1,670,428
Accounts Payable	0	0	(329,833)
Total	<u>\$344,980,654</u>	<u>\$298,227,726</u>	<u>\$423,899,966</u>
Fund Balances:			
Annuity Savings Fund	\$185,725,164	\$172,365,147	\$160,011,888
Annuity Reserve Fund	43,222,368	42,428,455	41,201,874
Pension Fund	171,029	90,666	(26,969)
Military Service Fund	75,460	52,119	53,957
Expense Fund	0	0	0
Pension Reserve Fund	115,786,632	83,291,338	222,659,216
Total	<u>\$344,980,654</u>	<u>\$298,227,726</u>	<u>\$423,899,966</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)	\$147,377,297	\$39,891,035	(\$12,512,951)	\$40,699	\$0	\$222,375,085	\$397,171,164
Receipts	22,161,925	1,193,598	22,110,717	13,468	3,888,324	27,231,102	76,599,133
Interfund Transfers	(5,708,871)	5,708,579	26,947,264	0	0	(26,946,971)	0
Disbursements	(3,818,462)	(5,591,338)	(36,571,998)	(210)	(3,888,324)	0	(49,870,332)
Ending Balance (2007)	160,011,888	41,201,874	(26,969)	53,957	0	222,659,216	423,899,966
Receipts	23,029,842	1,231,252	32,649,635	3,830	2,823,642	(121,367,807)	(61,629,607)
Interfund Transfers	(6,027,314)	6,029,611	18,000,000	(2,226)	0	(18,000,070)	0
Disbursements	(4,649,269)	(6,034,281)	(50,532,000)	(3,441)	(2,823,642)	0	(64,042,633)
Ending Balance (2008)	172,365,147	42,428,455	90,666	52,119	0	83,291,338	298,227,726
Receipts	22,944,367	1,264,951	32,951,704	24,378	2,688,580	37,492,420	97,366,401
Interfund Transfers	(5,985,346)	5,983,511	5,000,000	(1,038)	0	(4,997,126)	0
Disbursements	(3,599,004)	(6,454,548)	(37,871,342)	0	(2,688,580)	0	(50,613,473)
Ending Balance (2009)	<u>\$185,725,164</u>	<u>\$43,222,368</u>	<u>\$171,029</u>	<u>\$75,460</u>	<u>\$0</u>	<u>\$115,786,632</u>	<u>\$344,980,654</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$20,685,556	\$20,211,511	\$18,813,262
Transfers from Other Systems	1,111,017	1,494,467	1,887,646
Member Make Up Payments and Re-deposits	248,794	172,269	277,986
Member Payments from Rollovers	61,847	221,344	323,198
Investment Income Credited to Member Accounts	<u>837,153</u>	<u>930,252</u>	<u>859,833</u>
Sub Total	<u>22,944,367</u>	<u>23,029,842</u>	<u>22,161,925</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>1,264,951</u>	<u>1,231,252</u>	<u>1,193,598</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	1,182,334	1,507,345	821,150
Pension Fund Appropriation	1,068,789	1,773,972	631,489
Pension Fund Appropriation	30,670,431	29,368,318	20,658,078
Settlement of Workers' Compensation Claims	<u>30,150</u>	<u>0</u>	<u>0</u>
Sub Total	<u>32,951,704</u>	<u>32,649,635</u>	<u>22,110,717</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	24,131	3,665	13,246
Investment Income Credited to the Military Service Fund	<u>248</u>	<u>165</u>	<u>222</u>
Sub Total	<u>24,378</u>	<u>3,830</u>	<u>13,468</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>2,688,580</u>	<u>2,823,642</u>	<u>3,888,324</u>
Sub Total	<u>2,688,580</u>	<u>2,823,642</u>	<u>3,888,324</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	46,402	36,095	42,521
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	17,961	30,299	23,959
Miscellaneous Income	104,082	90,340	68,222
Excess Investment Income (Loss)	<u>37,323,976</u>	<u>(121,524,541)</u>	<u>27,096,399</u>
Sub Total	<u>37,492,420</u>	<u>(121,367,807)</u>	<u>27,231,102</u>
Total Receipts, Net	<u>\$97,366,401</u>	<u>(\$61,629,607)</u>	<u>\$76,599,133</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$1,903,732	\$2,294,586	\$2,219,025
Transfers to Other Systems	<u>1,695,272</u>	<u>2,354,684</u>	<u>1,599,438</u>
Sub Total	<u>3,599,004</u>	<u>4,649,269</u>	<u>3,818,462</u>
Annuity Reserve Fund:			
Annuities Paid	6,333,823	5,928,947	5,505,562
Option B Refunds	<u>120,725</u>	<u>105,334</u>	<u>85,776</u>
Sub Total	<u>6,454,548</u>	<u>6,034,281</u>	<u>5,591,338</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	28,827,689	27,610,573	26,324,051
Survivorship Payments	1,748,429	1,577,431	1,470,071
Ordinary Disability Payments	421,976	395,114	368,537
Accidental Disability Payments	4,665,092	4,509,949	4,103,393
Accidental Death Payments	732,007	700,721	704,648
Section 101 Benefits	187,709	178,364	179,229
3 (8) (c) Reimbursements to Other Systems	1,288,441	15,559,848	3,422,068
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>37,871,342</u>	<u>50,532,000</u>	<u>36,571,998</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	3,441	210
Expense Fund:			
Board Member Stipend	15,000	22,250	20,083
Salaries	441,990	417,645	519,114
Legal Expenses	67,022	14,090	32,440
Medical Expenses	0	0	0
Travel Expenses	3,914	7,305	1,910
Administrative Expenses	158,942	178,555	143,788
Education and Training	1,000	0	0
Furniture and Equipment	5,786	29,645	96,826
Management Fees	1,875,530	2,037,229	2,832,409
Custodial Fees	0	0	82,577
Consultant Fees	0	0	70,000
Rent Expenses	80,056	79,611	53,074
Fiduciary Insurance	<u>39,340</u>	<u>37,313</u>	<u>36,102</u>
Sub Total	<u>2,688,580</u>	<u>2,823,642</u>	<u>3,888,324</u>
Total Disbursements	<u>\$50,613,473</u>	<u>\$64,042,633</u>	<u>\$49,870,332</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$65,848	\$300,012	\$3,395,572
Short Term Investments	0	11,710	405,329
Fixed Income	0	0	1,256,676
Equities	0	0	246,313
Pooled or Mutual Funds	8,789,344	11,841,380	5,048,381
Commission Recapture	0	0	0
Total Investment Income	<u>8,855,192</u>	<u>12,153,101</u>	<u>10,352,270</u>
Plus:			
Realized Gains	9,534,817	4,566,001	50,808,087
Unrealized Gains	74,196,423	19,436,590	37,892,055
Interest Due and Accrued - Current Year	0	0	<u>10,007</u>
Sub Total	<u>83,731,240</u>	<u>24,002,591</u>	<u>88,710,148</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(150,583)
Realized Loss	(22,944,710)	(24,830,665)	(4,217,404)
Unrealized Loss	(27,526,815)	(127,854,251)	(61,381,598)
Interest Due and Accrued - Prior Year	0	(10,007)	(274,457)
Sub Total	<u>(50,471,525)</u>	<u>(152,694,922)</u>	<u>(66,024,043)</u>
Net Investment Income (Loss)	<u>42,114,907</u>	<u>(116,539,230)</u>	<u>33,038,376</u>
Income Required:			
Annuity Savings Fund	837,153	930,252	859,833
Annuity Reserve Fund	1,264,951	1,231,252	1,193,598
Military Service Fund	248	165	222
Expense Fund	<u>2,688,580</u>	<u>2,823,642</u>	<u>3,888,324</u>
Total Income Required	<u>4,790,931</u>	<u>4,985,310</u>	<u>5,941,976</u>
Net Investment Income (Loss)	<u>42,114,907</u>	<u>(116,539,230)</u>	<u>33,038,376</u>
Less: Total Income Required	<u>4,790,931</u>	<u>4,985,310</u>	<u>5,941,976</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$37,323,976</u>	<u>(\$121,524,541)</u>	<u>\$27,096,399</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$5,622,803	1.6%
Pooled Alternative Investment Funds	10,180,480	3.0%
Pooled Real Estate Funds	14,707,181	4.3%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	312,978,284	91.1%
Grand Total	\$343,488,748	100.0%

For the year ending December 31, 2009, the rate of return for the investments of the Worcester Regional Retirement System was 13.15%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Worcester Regional Retirement System averaged 1.47%. For the 25-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 Worcester Regional Retirement System was 8.08%.

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 25-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 Worcester Regional Retirement System voted on July 13, 2007 to invest substantially all of the system's assets with the PRIT fund as of July 31, 2007. As a result, more than 90 percent of their funds are invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Worcester Regional Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the Internet as follows: <http://www.mass.gov/perac/investsup/worcesctyintsup.html>

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Worcester Regional 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 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.

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 3% interest on their contributions if they voluntarily terminate their service and apply for a refund after July 1, 2010.

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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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 \$729.84 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

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 \$729.84 per year, per child (or \$312.00 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.

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board relies upon the investment strategy of the PRIT Fund to advise them of 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 Worcester Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 26, 1993

Membership Part time teachers.

At a meeting of the Worcester Regional Retirement Board, a vote was taken to accept only teacher aides, who are employed for 1,040 hours or more per year.

June 30, 1986

Membership

School Employees - Full-time employees working during the school year receive one full year of creditable service.

December 28, 1984

Membership

All part-time employees who work at least 20 hours per week (1040) within the calendar year must join the system.

Creditable Service

Elected members of water district are allowed one full year of creditable service for each calendar year served as an elected official.

Call fire fighters - when earnings are \$225 per year or more, then 4 months of creditable service is allowed for each calendar year, but only if such fire fighter is later appointed as a permanent member of the fire department pursuant to G.L. c. 32, § 4(2)(b).

Cafeteria - 6 hours per day is considered a full day. The Retirement Board will allow full year service to include summer months off. If a cafeteria employee works less than 6 hours per day, 5, 4, or 3 hours per day, then service is prorated and based on a 6 hour full day and creditable service is allowed at 83%, 66% or 50% of full 12 months.

Library - If a librarian works all of the hours the library is open, that being 20 hours or more per week, then the Retirement Board will allow full creditable service. If a member works part-time and not the full hours of the library, then such hours worked will be prorated against the hours the library is opened.

Part-time police work - use hourly rate to determine hours worked based on 37 hours per week being full-time. All other part-time employees will have their time prorated, using a 35-hour week as full time.

Free Prior Service (before 7/1/47) or Date of Charter - \$50.00 per month equals one full year of creditable service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Chairperson who shall be elected by the other four members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairperson:	Kevin P. Blanchette	Term Expires:	12/31/2014
Advisory Council Member:	Carol A. Baron	Term Expires:	12/31/2012
Elected Member:	Pauline Lajoie	Term Expires:	12/31/2010
Elected Member:	Michael J. Donoghue	Term Expires:	12/31/2011
Appointed Member:	Eugene Durgin	Term Expires:	12/31/2013

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$353,391,564
The actuarial liability for inactive members was	8,987,460
The actuarial liability for retired members was	<u>330,389,301</u>
The total actuarial liability was	692,768,325
System assets as of that date were	<u>389,758,785</u>
The unfunded actuarial liability was	<u>\$303,009,540</u>
The ratio of system's assets to total actuarial liability was	56.3%
As of that date the total covered employee payroll was	\$211,518,755

The normal cost for employees on that date was 8.3% of payroll
 The normal cost for the employer was 3.4% of payroll

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

Investment Return: 8.5% per annum
 Rate of Salary Increase: 4.8% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$389,758,785	\$692,768,325	\$303,009,540	56.3%	\$211,518,755	143.3%
1/1/2004	\$350,879,900	\$552,773,549	\$201,893,649	63.5%	\$170,669,442	118.3%
1/1/2001	\$316,389,108	\$426,280,953	\$109,891,945	74.2%	145,000,347	75.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	103	94	112	232	107	64	96	112	106	92
Ordinary Disability	2	0	4	1	0	2	3	1	2	2
Accidental Disability	3	9	9	6	6	5	11	6	12	10
Total Retirements	108	103	125	239	113	71	110	119	120	104
Total Retirees, Beneficiaries and Survivors	2,763	2,884	2,931	3,017	3,015	3,023	3,012	3,014	2,904	3,020
Total Active Members	5,887	6,391	6,496	6,340	6,690	6,907	7,117	7,412	7,208	6,911
Pension Payments										
Superannuation	\$16,148,872	\$17,042,113	\$18,268,552	\$22,220,187	\$23,744,032	\$24,187,800	\$25,122,949	\$26,324,051	\$27,610,573	\$28,827,689
Survivor/Beneficiary Payments	1,203,075	1,230,565	1,409,371	1,304,701	1,312,631	1,416,383	1,456,075	1,470,071	1,577,431	1,748,429
Ordinary Disability	313,393	312,094	303,288	283,429	272,797	281,553	350,822	368,537	395,114	421,976
Accidental Disability	2,731,726	2,851,865	3,009,079	3,197,795	3,399,482	3,606,715	3,888,592	4,103,393	4,509,949	4,665,092
Other	<u>1,090,801</u>	<u>1,207,712</u>	<u>1,155,262</u>	<u>1,498,278</u>	<u>1,608,781</u>	<u>1,743,430</u>	<u>2,792,917</u>	<u>4,305,946</u>	<u>16,438,934</u>	<u>2,208,157</u>
Total Payments for Year	<u>\$21,487,867</u>	<u>\$22,644,349</u>	<u>\$24,145,552</u>	<u>\$28,504,390</u>	<u>\$30,337,723</u>	<u>\$31,235,881</u>	<u>\$33,611,355</u>	<u>\$36,571,998</u>	<u>\$50,532,000</u>	<u>\$37,871,342</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac