

PERAC AUDIT REPORT



Hull
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2015



TABLE OF CONTENTS

Letter from the Executive Director	1
Statement of Ledger Assets and Liabilities.....	2
Statement of Changes in Fund Balances	3
Statement of Receipts.....	4
Statement of Disbursements.....	5
Investment Income.....	6
Schedule of Allocation of Investments Owned.....	7
Supplementary Investment Regulations.....	8
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	9
Note 2 - Significant Accounting Policies.....	16
Note 3 - Supplementary Membership Regulations.....	18
Note 4 - Administration of the System	25
Note 5 - Actuarial Valuation and Assumptions.....	26
Note 6 - Membership Exhibit.....	27

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. McCARTHY | JENNIFER F. SULLIVAN

May 29, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Hull Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

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

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

Sincerely,



John W. Parsons, Esq.
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2015	2014	2013
Net Assets Available For Benefits:			
Cash	\$103,876	\$126,517	\$143,125
PRIT Cash Fund	50,044	25,017	75,016
PRIT Core Fund	38,271,035	37,895,112	34,679,173
Accounts Receivable	102,700	34,627	3,125
Accounts Payable	(259)	(190)	(1,546)
Total	<u>\$38,527,396</u>	<u>\$38,081,084</u>	<u>\$34,898,894</u>
Fund Balances:			
Annuity Savings Fund	\$10,345,561	\$10,236,870	\$10,031,778
Annuity Reserve Fund	3,266,162	3,122,823	2,830,534
Pension Fund	2,613,084	2,537,573	2,214,885
Expense Fund	0	0	0
Pension Reserve Fund	<u>22,302,589</u>	<u>22,183,817</u>	<u>19,821,696</u>
Total	<u>\$38,527,396</u>	<u>\$38,081,084</u>	<u>\$34,898,894</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2013)	\$9,518,223	\$2,826,351	\$1,839,264	\$0	\$15,645,444	\$29,829,281
Receipts	962,767	83,259	3,483,702	326,020	4,176,252	9,032,001
Interfund Transfers	(344,894)	344,894	0	0	0	0
Disbursements	(104,317)	(423,970)	(3,108,081)	(326,020)	0	(3,962,388)
Ending Balance (2013)	10,031,778	2,830,534	2,214,885	0	19,821,696	34,898,894
Receipts	1,081,133	84,372	3,552,968	349,834	2,362,121	7,430,427
Interfund Transfers	(663,203)	663,203	0	0	0	(0)
Disbursements	(212,838)	(455,286)	(3,230,280)	(349,834)	0	(4,248,237)
Ending Balance (2014)	10,236,870	3,122,823	2,537,573	0	22,183,817	38,081,084
Receipts	1,118,143	94,746	3,662,002	320,384	118,771	5,314,046
Interfund Transfers	(578,158)	578,158	0	0	0	0
Disbursements	(431,294)	(529,565)	(3,586,490)	(320,384)	0	(4,867,733)
Ending Balance (2015)	<u>\$10,345,561</u>	<u>\$3,266,162</u>	<u>\$2,613,084</u>	<u>\$0</u>	<u>\$22,302,589</u>	<u>\$38,527,396</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2015	2014	2013
Annuity Savings Fund:			
Members Deductions	\$945,611	\$952,973	\$888,190
Transfers from Other Systems	148,880	92,581	31,379
Member Make Up Payments and Re-deposits	11,112	22,382	31,590
Investment Income Credited to Member Accounts	<u>12,540</u>	<u>13,196</u>	<u>11,609</u>
Sub Total	<u>1,118,143</u>	<u>1,081,133</u>	<u>962,767</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>94,746</u>	<u>84,372</u>	<u>83,259</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	139,573	86,007	85,005
Pension Fund Appropriation	53,564	64,127	121,141
Recovery of 91A Overearnings	3,468,864	3,402,834	3,277,556
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,662,002</u>	<u>3,552,968</u>	<u>3,483,702</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>320,384</u>	<u>349,834</u>	<u>326,020</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	21,380	25,408	20,355
Interest Not Refunded	2,464	0	295
Miscellaneous Income	114	0	38
Excess Investment Income	<u>94,813</u>	<u>2,336,713</u>	<u>4,155,564</u>
Sub Total	<u>118,771</u>	<u>2,362,121</u>	<u>4,176,252</u>
Total Receipts, Net	<u>\$5,314,046</u>	<u>\$7,430,427</u>	<u>\$9,032,001</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2015	2014	2013
Annuity Savings Fund:			
Refunds to Members	\$321,824	\$64,955	\$37,427
Transfers to Other Systems	<u>109,471</u>	<u>147,883</u>	<u>66,891</u>
Sub Total	<u>431,294</u>	<u>212,838</u>	<u>104,317</u>
Annuity Reserve Fund:			
Annuities Paid	<u>529,565</u>	<u>455,286</u>	<u>423,970</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	2,180,325	2,040,248	1,927,898
Survivorship Payments	72,486	61,993	73,798
Ordinary Disability Payments	74,648	36,476	35,858
Accidental Disability Payments	630,852	651,682	670,221
Accidental Death Payments	246,124	209,098	206,578
Section 101 Benefits	49,797	37,665	29,269
3 (8) (c) Reimbursements to Other Systems	262,852	193,116	164,458
State Reimbursable COLA's Paid	<u>69,404</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,586,490</u>	<u>3,230,280</u>	<u>3,108,081</u>
Expense Fund:			
Board Member Stipend	3,000	2,875	3,000
Salaries	47,048	47,091	43,973
Legal Expenses	1,776	5,037	14,305
Medical Expenses	0	37	0
Travel Expenses	275	272	710
Administrative Expenses	31,420	47,674	44,332
Actuarial Services	0	12,358	1,000
Accounting Services	9,000	11,000	10,523
Education and Training	1,080	810	990
Management Fees	196,361	193,001	178,187
Service Contracts	14,667	14,035	13,366
Fiduciary Insurance	<u>15,757</u>	<u>15,645</u>	<u>15,633</u>
Sub Total	<u>320,384</u>	<u>349,834</u>	<u>326,020</u>
Total Disbursements	<u>\$4,867,733</u>	<u>\$4,248,237</u>	<u>\$3,962,388</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2015	2014	2013
Investment Income Received From:			
Cash	\$173	\$173	\$171
Pooled or Mutual Funds	<u>991,754</u>	<u>1,021,011</u>	<u>925,567</u>
Total Investment Income	<u>991,926</u>	<u>1,021,184</u>	<u>925,738</u>
Plus:			
Realized Gains	1,382,006	1,614,444	1,495,196
Unrealized Gains	<u>1,996,564</u>	<u>2,313,767</u>	<u>3,853,312</u>
Sub Total	<u>3,378,570</u>	<u>3,928,212</u>	<u>5,348,508</u>
Less:			
Realized Loss	(18,504)	0	0
Unrealized Loss	<u>(3,829,509)</u>	<u>(2,165,282)</u>	<u>(1,697,795)</u>
Sub Total	<u>(3,848,014)</u>	<u>(2,165,282)</u>	<u>(1,697,795)</u>
Net Investment Income	<u>522,482</u>	<u>2,784,114</u>	<u>4,576,452</u>
Income Required:			
Annuity Savings Fund	12,540	13,196	11,609
Annuity Reserve Fund	94,746	84,372	83,259
Expense Fund	<u>320,384</u>	<u>349,834</u>	<u>326,020</u>
Total Income Required	<u>427,669</u>	<u>447,401</u>	<u>420,888</u>
Net Investment Income	<u>522,482</u>	<u>2,784,114</u>	<u>4,576,452</u>
Less: Total Income Required	<u>427,669</u>	<u>447,401</u>	<u>420,888</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$94,813</u>	<u>\$2,336,713</u>	<u>\$4,155,564</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$103,876	0.3%
PRIT Cash Fund	50,044	0.1%
PRIT Core Fund	<u>38,271,035</u>	<u>99.6%</u>
Grand Total	<u>\$38,424,955</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Hull Retirement System was 1.32%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Hull Retirement System averaged 7.54%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hull Retirement System was 7.82%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Hull Retirement System voted on December 21, 2004 to invest all of the system's assets with the PRIT fund as of January 1, 2005. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hull 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 104 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

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 person who became a member before April 2, 2012 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.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

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). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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, s. 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 those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

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 \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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 while in the performance of his duties that results 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 \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

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. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

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

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%. Only a certain portion 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, Section 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. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 has not remarried, 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. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each 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 primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hull Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

March 24, 2009

1. Membership is mandatory for all hired or appointed employees of the Town of Hull who are employed twenty (20) hours or more per week on a regular permanent basis for a period of time exceeding six (6) months. Those employed by a long/short term contract with either an annual, semi-annual or monthly renewals are excluded from membership. Employees who attain the age of 70, membership is voluntary. Those employees hired by under a Federal or State Grant and are employed twenty (20) hours or more per week must become a member in the System.
2. Membership for an Elected official who is paid regular compensation as defined in M.G.L. c. 32, §1 may elect to join membership within 90 days after assuming duties of the position as defined in M.G.L c. 32, §(2)(a)(v).
3. Members who work in twenty (20) hour position and an under twenty (20) hour position simultaneously, the member shall be required to be pensioned on both positions.
4. Employees hired as summer or seasonal employee positions shall be excluded from membership.
5. Any employee who is a member of the Hull Retirement System and who receives an involuntary reduction in hours, less than twenty (20) hours, will remain an active member in the Hull Retirement System.

November 5, 1996

1. The following rules and regulations of the Hull Contributory Retirement system relative to membership in said system shall be in effect. These regulations shall supersede any previous regulations.
2. For the purpose of these regulations full time employment shall be defined as 35 hours per week (or 1820 hours yearly) for administrative, clerical employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed members of the fire department and four consecutive eight hour days on duty followed by two consecutive days off duty for uniformed employees of the police department.
3. If a full time employee who is a member in service of the Hull Contributory Retirement System on November 5, 1996 and becomes a part time employee at any time after November 5, 1996 said employee shall remain an active member of the system.
4. Except as expressly provided by these regulations, no individual in the employment or service of the Town shall be eligible to be credited with creditable service for any period of part time, provisional, temporary, temporary provisional, seasonal or intermittent (hereinafter, collectively,

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

part time) employment or service prior to any individual's eligibility to become a member of the System (or the reinstatement of such eligibility).

5. Eligibility: Except pursuant to these regulations promulgated by the Hull Contributory Retirement Board (the Board) under G.L. c. 32, § 4(2)(c), no member of the System shall be eligible to be credited with creditable service for any period of part time employment or service in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility). For the purpose of these regulations a part time employee of the Town who is eligible for creditable service for any period of part time employment or service in the System prior to said employee's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be deemed an eligible part time employee pursuant to this section 5.

6. Permanent part time employees employed as of November 5, 1996 but hired prior to November 5, 1996 and currently working 20 hours or more per week must elect to join the System upon completion of any probationary period as of November 5, 1996.

7. An eligible part time employee who, in accordance with these regulations, receives credit for creditable service for employment or service rendered prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be subject to any and all provisions of G.L. c. 32.

8. Administration: The credit for creditable service for employment or service for any period of part time employment or service in the System by an eligible employee who in accordance with these regulations, receives credit for creditable service for employment or service for any period of part time service or employment in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be administered by the Board, which Board shall also have the authority to promulgate further regulations to implement the provisions of these regulations.

9. Interpretation: For the purposes of these regulations, words shall have the same meanings as defined in G.L. c. 32, unless otherwise expressly provided herein or unless the context clearly requires otherwise.

Creditable Service:

Buybacks and Service Purchases (Non-Military):

January 25, 2013

Any member of the retirement system who has a membership date prior to April 2, 2012 and commences a buyback or enters into a payment plan, not to exceed five (5) years, prior to April 2, 2013, will be charged the buyback interest rate (1/2 actuarial assumed interest rate). If said member does not commence the buyback or enter into a payment plan prior to April 2, 2013, the member will be charged the full actuarial assumed interest rate.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Any member of the retirement system who has a membership date after April 2, 2012 will have 1 year from their membership date to commence a buyback or enter into payment plan, not to exceed five (5) years, will be charged the buyback interest rate (1/2 actuarial assumed interest rate). If said member does not commence the buyback or enter into a payment plan within 1 year of membership, the member will be charged the full actuarial assumed interest rate.

Furloughs on Creditable Service and Regular Compensation:

June 11, 2010

Definitions for the purposes of these regulations shall mean the following:

Furloughs – A period of time in which a member is required to take unpaid leave.

The Hull Retirement Board under the provision of G.L. c. 32, § 4(1)(c) established by virtue of rights the following:

1. Any member of the retirement system who is required to take a furlough for a period that exceeds one month shall, upon request, be granted up to one month of creditable service. [This regulation appears to allow the one month of creditable service for a furlough period only after the member has served a one month period of furlough without creditable service.]
2. If a member receives creditable service for the furlough period during the three-year period of their retirement calculation, the amount of regular compensation that they would have received will be included in their three-year average. The rate of compensation will be the same rate as in effect immediately preceding the furlough period. No retirement contributions will be collected for this benefit.

Non-member Service Make-up:

March 24, 2009

Non-member Service - Make-up definitions for the purpose of these regulations shall mean the following:

Non-member — any person hired to work part-time, provisional, temporary, and temporary provisional, seasonal or intermittent employment as described in the Hull Contributory Retirement System's Supplementary Regulations for Membership as approved by PERAC on January 3, 2007

Non-member Make-up — any member requesting to purchase non-member service (as described above) with the Town of Hull or another city, town, or municipality.

1. When purchasing non-member service, if payroll records cannot be obtained, then the applicant shall supply a W-2. An attempt should be made to acquire the Wage and Salary form from the Human Resource Department. The Retirement Administrator will assess the hourly wage, divided

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

by the W-2 and determine if the hours worked qualified for purchasing service credit. If eligibility for membership cannot be determined, no credit will be granted.

2. No make-ups will be granted for part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment for the time in which the employee was not eligible for membership in the retirement system unless said employee becomes a member in the Hull Contributory Retirement System.

3. Any member requesting a non-member make-up must be an active member of the Hull Retirement System. No inactive member shall be allowed to make a non-member make-up for service credit.

4. Calculations for non-member make-ups for eligible membership employment shall be based on the number of hours of the position for which the persons is currently employed. For administrative, clerical employees 35 hours per week (or 1820 hours yearly); 40 hours per week (or 2080 hours yearly) for custodians, laborers, police and fire chiefs and captains, and hourly rated employees; 37.5 hours per week (or 1950 hours yearly) for non union and union police officers; and 42 hours per week (or 2184 hours yearly) for uniformed members of the fire department.

5. Any member who voluntarily resigns from a qualified membership position, which did not withdrawn their funds, returns to an ineligible position, shall remain in the retirement system, however said creditable service will be pro-rated and calculated as above based on the eligible position from which they resigned.

6. All non-member make-ups shall be paid in full by date determined by the retirement administrator to avoid any added interest. Payments not made in full will be subject to added interest at 1/2 of the current actuarial assumed rate if interest.

7. Any member making bi-weekly installments will be subject to a five (5) year repayment scheduled inclusive of added interest at the end of each calendar year.

8. Should a member choose to make non-payroll deducted installment payments interest will be applied annually on any un-paid balance at 1/2 the current actuarial assumed rate of interest. Payback shall be completed within five (5) years.

9. In cases of hardship, the Retirement Board, upon request by the member, shall have the right to grant a member special terms.

10. Any request for non-member make-up from another city, town, or municipality will be forwarded to the proper retirement board of said city, town, or municipality and liability from that board will be requested. If said retirement board does not grant service credit the Hull Retirement Board will grant service credit as described in section 5.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

11. Non-member service make-ups will not be granted if service credit is not equivalent to at least 3 months of creditable service, unless special circumstances occur.

12. The Retirement Board has the right to deny any request for non-member make-up payments.

Benefits Pursuant to G.L. c. 32, §4(1)(h) – The so-called “Military Buyback” :
February 22, 2006

1. The following rules and regulations of the Hull Contributory Retirement System relative to Benefits Pursuant to G.L. c. 32, §4(1)(h) shall be in effect. These regulations shall supersede any previous regulations.

2. For the purpose of these regulations a member must meet the definition of “veteran” in M.G.L. c. 32 § 1 as amended August 30, 2004.

3. For the purpose of these regulations creditable service is calculated as defined in M.G.L. c. 32, §4(1)(h).

4. For the purpose of these regulations the definition of “written notification” shall mean a dated, written letter from the Retirement Board, sent by mail or hand delivered, to a member which notifies them of their potential benefits under M.G.L. c. 32, §4(1)(h).

5. For the purpose of these regulations “180-days” begin on the date of the written notification.

6. If a member of the Hull Contributory Retirement System is eligible for benefits pursuant to c. 32, §4(1)(h), said member upon written notification from the Retirement Office shall have 180 days to decide whether or not they wish to purchase the creditable service.

7. Should a member fail to accept or decline said benefits within the 180-day time frame, upon receipt of a certified letter, said member shall no longer be eligible for said benefits.

8. Should a member voluntarily decline said benefits, the member shall no longer be eligible for benefits. The declining of benefits shall be in writing or as otherwise described above.

9. Upon written acceptance of said benefits, a member must within the 180-days, either make a lump sum payment or begin bi-weekly payroll deductions for payback, minimal amount of \$70.00. Maximum payback completion shall not exceed five (5) years. In cases of hardship, the Retirement Board may approve special conditions.

10. No military service credit shall be applied until payment in full has been completed.

11. Any member who transfers service credit to another Massachusetts retirement system, prior to completion of said payback, shall only be granted service credit equal to the amount paid into the Hull Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

12. Any member who has previously been notified of their rights and has accepted the provisions of M.G.L. c. 32, §4(1)(h) shall now fall under these regulations. All members will be notified in writing of the acceptance and approval of the regulations and required to make payment in full or begin payback as described above.

13. Administration. The credit for creditable service for military service by an eligible employee who in accordance with these regulation, receives credit shall be administered by the Board, which Board shall also have the authority to promulgate further regulation to implement the provisions of these regulations.

14. Interpretation. For the purpose of these regulations, words shall have the same meanings as defined in G.L. c.32, unless otherwise expressly provided herein or unless the context clearly requires otherwise.

15. Effective date. These regulations shall become effective upon the approval of these regulations by the Public Employee Retirement Administration Commission pursuant to G.L. c. 7, §50.

Miscellaneous:

Board Member(s) Election(s)

March 24, 2009

Definition for the purposes of these regulations shall mean the following Election (s) — The voting of a person or persons to serve as a member of the Hull Contributory Retirement Board by members in service or retired from service from the Town of Hull.

The Hull Retirement Board under the provisions of M G L c 7, §50 and M G L c 32, §21, Board Member Election, shall follow the election guidelines in conjunction with PERAC regulations 840 CMR 7 00 Standard Rules for Election with the following regulations established by virtue of rights.

1. Election Officer, by virtue of position, shall be the Retirement Administrator.
2. Elections will be simultaneous, unless an unforeseen circumstance occurs.
3. In the event that an unforeseen circumstance occurs, the Board will hold an election for the open position at its earliest possibility. The term of the elected official shall expire upon the prior elected position expiration in order to maintain simultaneous elections in the future.
4. Notice of Election (s) will be made available as follows:
 - a. Mailed to all retirees
 - b. Placed in the local newspaper
 - c. Placed on the local cable channel
 - d. Posted in at least three appropriate public locations within the jurisdiction of the system
5. One Ballot will be prepared containing all valid candidates.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

6. The two candidates with the most votes will be declared the winners.
7. All elections will be conducted by mail.

Travel Regulations:

The Hull 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 (www.mass.gov/service-details/hull-retirement-board-travel-regulations).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: J. Michael Buckley, Chairperson

Appointed Member: Eileen White Term Expires: 10/04/19

Elected Member: John J. King Term Expires: 12/30/20

Elected Member: Brian Thompson Term Expires: 12/30/20

Appointed Member: Gregory Galvin Term Expires: 01/24/20

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. 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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$5,000,000 under a policy issued through Ullico.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Odyssey Advisors as of January 1, 2016.

The actuarial liability for active members was	\$27,852,505
The actuarial liability for inactive members was	342,470
The actuarial liability for retired members was	<u>37,299,500</u>
The total actuarial liability was	\$65,494,475
System assets as of that date were	<u>38,527,396</u>
The unfunded actuarial liability was	<u>\$26,967,079</u>
The ratio of system's assets to total actuarial liability was	58.8%
As of that date the total covered employee payroll was	\$9,701,015

The normal cost for employees on that date was 9.5% of payroll
 The normal cost for the employer was 10.6% of payroll

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

Investment Return: 7.75% per annum
 Rate of Salary Increase: 4.50% per annum

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

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)
1/1/2016	\$38,527,396	\$65,494,475	\$26,967,079	58.8%	\$9,701,015	278.0%
1/1/2014	\$34,820,803	\$64,528,515	\$29,707,712	54.0%	\$9,293,846	319.6%
1/1/2012	\$26,210,257	\$59,993,728	\$33,783,471	43.7%	\$9,189,068	367.6%
1/1/2010	\$22,241,393	\$52,498,246	\$30,256,853	42.4%	\$8,704,747	347.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	7	4	5	4	6	0	5	3	8	6
Ordinary Disability	1	0	0	0	1	0	0	0	0	0
Accidental Disability	1	0	0	0	0	0	0	0	0	0
Total Retirements	9	4	5	4	7	0	5	3	8	6
 Total Retirees, Beneficiaries and Survivors	135	133	132	135	140	134	134	131	134	138
 Total Active Members	214	190	228	270	182	187	185	180	179	172
 Pension Payments										
Superannuation	\$1,502,367	\$1,568,084	\$1,735,561	\$1,702,774	\$1,813,916	\$1,884,656	\$1,889,856	\$1,927,898	\$2,040,248	\$2,180,325
Survivor/Beneficiary Payments	40,958	41,522	40,406	56,382	68,897	69,922	71,842	73,798	61,993	72,486
Ordinary Disability	55,895	38,686	39,406	40,126	46,212	48,450	35,248	35,858	36,476	74,648
Accidental Disability	719,068	759,389	647,810	660,990	666,335	676,871	675,666	670,221	651,682	630,852
Other	<u>265,373</u>	<u>258,997</u>	<u>277,916</u>	<u>346,374</u>	<u>348,316</u>	<u>373,164</u>	<u>384,008</u>	<u>400,305</u>	<u>439,880</u>	<u>628,178</u>
Total Payments for Year	<u>\$2,583,661</u>	<u>\$2,666,678</u>	<u>\$2,741,099</u>	<u>\$2,806,646</u>	<u>\$2,943,676</u>	<u>\$3,053,063</u>	<u>\$3,056,620</u>	<u>\$3,108,081</u>	<u>\$3,230,280</u>	<u>\$3,586,490</u>

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