

# PERAC AUDIT REPORT



Fairhaven  
Contributory Retirement System



JAN. 1, 2010 - DEC. 31, 2012





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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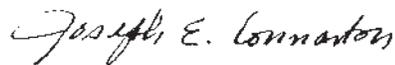
January 17, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Fairhaven Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. 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 Martin J. Feeney and William J. Walsh 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. Bank Reconciliation**

A review of the bank reconciliation for the period ending December 31, 2012 revealed 3 retiree checks and one refund check in the amount of \$1,059.43 that were outstanding for more than six months, of which 2 dated back to 2008.

**Recommendation:** Any un-cashed item older than six months should be researched so that proper voiding and recording of these items can be completed. The Retirement System should notify all retirees of the advantages of direct deposit as an alternative to monthly checks.

### **Board Response:**

- a. A replacement check for \$10.16 has been issued to the respective retiree on 10/8/13.
- b. A replacement check for \$428.93 has been issued to the respective retiree on 7/31/13.
- c. A replacement check for \$573.12 has been issued to the respective retiree's beneficiary on 11/20/13.
- d. A letter of notification of money owed for deductions from the Fairhaven Retirement System for \$47.22, has been sent to the former member on 10/02/13. There has been no response thus far. He moved out of state.

## **2. Refunds**

An examination of refunds to members during the 2010-2012 audit years indicated that two of the refunds sampled returned an incorrect amount of interest to the member. Approximately \$423.00 of additional accrued interest is owed to these two members. Although they received their refunds several years after they left the system, the interest owed to them was calculated to the day they left service, and the "two year" rule was not applied in these cases.

**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.

### **Board Response:**

- a. A check for \$297.48 (\$371.48 less \$74.00 for federal taxes) has been issued to the respective former member on 11/20/13 for additional interest on deductions refunded.
- b. A letter of notification of money owed for interest from the Fairhaven Retirement System for \$50.69 has been sent to the respective former member on November 1<sup>st</sup> and November 20<sup>th</sup>. There has been no response thus far.

## **3. Current Retirees**

A review of recent retirees' folders revealed that payroll records are not used when calculating a member's high three-year average salary. Instead, the salary amounts are "backed into" from the contributions received from the member. The administrator also mentioned that the payroll registers have a column for "other" pay that could include pay that is subject to retirement deductions, and pay that is not subject to retirement deductions. This is one reason why she uses the retirees' deductions to calculate the high three-year average salary.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**Recommendation:** The system should start requesting payroll records from the employer to calculate the member's high three-year average salary. They should request a detailed breakdown of what type of pay makes up "other" pay, to ensure they include only the pay that is retirement eligible when calculating the high three-year average salary.

**Board Response:**

The Retirement Administrator now receives detailed payroll records from the payroll department when calculating the member's high three year average for retirement.

**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,		
	2012	2011	2010
<b>Net Assets Available For Benefits:</b>			
Cash	\$1,218,493	\$306,278	\$589,409
PRIT Cash Fund	10	1,099,294	986,072
PRIT Core Fund	40,436,903	35,725,411	35,580,724
Accounts Receivable	110,843	125,961	99,739
<b>Total</b>	<u>\$41,766,250</u>	<u>\$37,256,943</u>	<u>\$37,255,944</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$10,342,371	\$10,306,536	\$9,702,516
Annuity Reserve Fund	3,099,608	2,795,438	2,825,942
Pension Fund	939	104,510	165,428
Military Service Fund	12,357	12,345	7,221
Expense Fund	0	0	0
Pension Reserve Fund	28,310,975	24,038,115	24,554,837
<b>Total</b>	<u>\$41,766,250</u>	<u>\$37,256,943</u>	<u>\$37,255,944</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 (2010)	\$9,047,581	\$3,039,368	\$365,264	\$7,199	\$0	\$20,872,477	\$33,331,890
Receipts	956,832	86,839	2,156,261	22	248,565	4,011,804	7,460,322
Interfund Transfers	(141,881)	141,881	329,444	0	0	(329,444)	0
Disbursements	(160,015)	(442,147)	(2,685,542)	0	(248,565)	0	(3,536,268)
Ending Balance (2010)	9,702,516	2,825,942	165,428	7,221	0	24,554,837	37,255,944
Receipts	1,094,574	81,463	2,400,635	5,124	275,214	(252,553)	3,604,456
Interfund Transfers	(316,414)	316,414	264,169	0	0	(264,169)	0
Disbursements	(174,140)	(428,382)	(2,725,722)	0	(275,214)	0	(3,603,457)
Ending Balance (2011)	10,306,536	2,795,438	104,510	12,345	0	24,038,115	37,256,943
Receipts	969,422	87,910	2,538,832	12	286,699	4,714,706	8,597,582
Interfund Transfers	(696,487)	696,487	441,846	0	0	(441,846)	0
Disbursements	(237,099)	(480,227)	(3,084,250)	0	(286,699)	0	(4,088,275)
Ending Balance (2012)	<u>\$10,342,371</u>	<u>\$3,099,608</u>	<u>\$939</u>	<u>\$12,357</u>	<u>\$0</u>	<u>\$28,310,975</u>	<u>\$41,766,250</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
<b>Annuity Savings Fund:</b>			
Members Deductions	\$926,265	\$923,415	\$896,570
Transfers from Other Systems	17,423	142,845	25,694
Member Make Up Payments and Re-deposits	4,981	6,079	7,723
Investment Income Credited to Member Accounts	<u>20,753</u>	<u>22,235</u>	<u>26,845</u>
Sub Total	<u>969,422</u>	<u>1,094,574</u>	<u>956,832</u>
<b>Annuity Reserve Fund:</b>			
Recovery of Annuity from Reinstatement	0	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>87,910</u>	<u>81,463</u>	<u>86,839</u>
Sub Total	<u>87,910</u>	<u>81,463</u>	<u>86,839</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	74,273	74,273	67,514
Pension Fund Appropriation	55,204	57,782	59,405
Settlement of Workers' Compensation Claims	2,400,048	2,262,883	2,029,342
Recovery of 91A Overearnings	8,000	5,697	0
	<u>1,308</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,538,832</u>	<u>2,400,635</u>	<u>2,156,261</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	5,109	0
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>14</u>	<u>22</u>
Sub Total	<u>12</u>	<u>5,124</u>	<u>22</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>286,699</u>	<u>275,214</u>	<u>248,565</u>
Sub Total	<u>286,699</u>	<u>275,214</u>	<u>248,565</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	38,502	43,006	40,526
Interest Not Refunded	3,884	1,989	2,191
Excess Investment Income	<u>4,672,320</u>	<u>(297,549)</u>	<u>3,969,086</u>
Sub Total	<u>4,714,706</u>	<u>(252,553)</u>	<u>4,011,804</u>
<b>Total Receipts, Net</b>	<u>\$8,597,582</u>	<u>\$3,604,456</u>	<u>\$7,460,322</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$88,034	\$109,967	\$119,856
Transfers to Other Systems	<u>149,065</u>	<u>64,173</u>	<u>40,158</u>
Sub Total	<u>237,099</u>	<u>174,140</u>	<u>160,015</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	480,227	428,382	442,147
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>480,227</u>	<u>428,382</u>	<u>442,147</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	2,134,025	1,995,325	1,993,479
Survivorship Payments	81,424	66,261	58,443
Ordinary Disability Payments	71,906	70,466	69,026
Accidental Disability Payments	617,345	411,264	383,446
Accidental Death Payments	59,539	58,459	57,379
Section 101 Benefits	9,407	16,540	16,045
3 (8) (c) Reimbursements to Other Systems	<u>110,603</u>	<u>107,406</u>	<u>107,723</u>
Sub Total	<u>3,084,250</u>	<u>2,725,722</u>	<u>2,685,542</u>
<b>Expense Fund:</b>			
Salaries	56,379	54,809	54,191
Legal Expenses	644	14,249	9,636
Travel Expenses	0	981	1,455
Administrative Expenses	5,969	5,081	4,596
Education and Training	270	0	0
Management Fees	205,891	180,580	155,473
Service Contracts	14,721	16,776	20,577
Fiduciary Insurance	<u>2,826</u>	<u>2,737</u>	<u>2,635</u>
Sub Total	<u>286,699</u>	<u>275,214</u>	<u>248,565</u>
<b>Total Disbursements</b>	<u><b>\$4,088,275</b></u>	<u><b>\$3,603,457</b></u>	<u><b>\$3,536,268</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
<b>Investment Income Received From:</b>			
Cash	\$551	\$1,439	\$1,709
Pooled or Mutual Funds	1,229,615	1,101,457	955,904
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Investment Income</b>	<u>1,230,165</u>	<u>1,102,897</u>	<u>957,614</u>
<b>Plus:</b>			
Realized Gains	996,768	1,122,374	888,092
Unrealized Gains	<u>5,210,531</u>	<u>3,584,280</u>	<u>6,508,671</u>
Sub Total	<u>6,207,299</u>	<u>4,706,654</u>	<u>7,396,762</u>
<b>Less:</b>			
Realized Loss	0	(20,462)	(28,845)
Unrealized Loss	<u>(2,369,771)</u>	<u>(5,707,711)</u>	<u>(3,994,173)</u>
Sub Total	<u>(2,369,771)</u>	<u>(5,728,173)</u>	<u>(4,023,019)</u>
<b>Net Investment Income</b>	<u>5,067,694</u>	<u>81,377</u>	<u>4,331,357</u>
<b>Income Required:</b>			
Annuity Savings Fund	20,753	22,235	26,845
Annuity Reserve Fund	87,910	81,463	86,839
Military Service Fund	12	14	22
Expense Fund	<u>286,699</u>	<u>275,214</u>	<u>248,565</u>
<b>Total Income Required</b>	<u>395,374</u>	<u>378,926</u>	<u>362,271</u>
Net Investment Income	<u>5,067,694</u>	<u>81,377</u>	<u>4,331,357</u>
Less: Total Income Required	<u>395,374</u>	<u>378,926</u>	<u>362,271</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$4,672,320</u>	<u>(\$297,549)</u>	<u>\$3,969,086</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,218,493	2.9%
PRIT Cash Fund	10	0.0%
PRIT Core Fund	<u>40,436,903</u>	<u>97.1%</u>
<b>Grand Total</b>	<u>\$41,655,407</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Fairhaven Retirement System was 13.89%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Fairhaven Retirement System averaged 1.47%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fairhaven Retirement System was 9.38%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Fairhaven Retirement Board voted on January 28, 1986 to invest all of the system's assets with the Pension Reserve Investment Trust Fund as of July 1, 1986. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration were effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Fairhaven 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 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 55. 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 \$774.36 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 \$774.36 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 \$100,000.00 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 is 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. 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-ration will not be undertaken. This is because such a person will 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 Fairhaven Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership

June 7, 2012

All full-time permanent and provisional employees are required to become members of the Fairhaven Contributory Retirement System. Regularly scheduled employment of 30 hours or more per week shall constitute full-time.

Employees hired/classified as temporary, substitute, intermittent, seasonal, emergency are not eligible for membership.

Part-time employees who are regularly scheduled to work 20 or more hours per week are required to become members of the Fairhaven Contributory Retirement System.

Employees whose regular work schedule is less than 20 hours per week will be considered "less than part-time" and are not eligible for membership.

Any member who subsequently becomes a temporary, intermittent, seasonal, emergency or less than part-time employee within any of this system's governmental units shall continue to be a member of this Retirement System. Creditable service adjustments in accordance with Board regulations will apply.

Any individual whose annualized earnings is (sic) less than \$5,000.00 is ineligible for membership.

#### Creditable Service

June 7, 2012

Creditable service shall be calculated on a 12-month basis for all members of the Fairhaven Contributory Retirement System.

Members from the school department shall be granted creditable service for the summer months upon return to service within the Fairhaven Contributory Retirement System in September.

Members from the school department who retire in July or August shall be granted creditable service for the portion of the summer months leading up to their retirement date if he/she completed the prior school year and shall not be required to return to service in September.

A member whose entire service is part-time shall receive one year of creditable service for each year worked 20+ hours per week.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

A member employed on a part-time basis who becomes full-time shall have his/her creditable service adjusted and receive credit for his/her part-time service on a pro-rated basis as it relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his/her part-time service on a pro-rated basis as it relates to a full-time position.

A member employed on a part-time basis who becomes less than part-time shall receive credit for his/her less than part-time service on a pro-rated basis as it relates to their former part-time position.

#### September 6, 1989:

Any individual employed in a part-time, temporary, seasonal or intermittent capacity, working less than twenty (20) hours per week, shall not be eligible to join the Fairhaven Retirement System until they become a permanent employee of the Town of Fairhaven, working twenty (20) hours or more per week. If at this time they wish to pay back into the system for previous time worked, they may do so and their creditable service would be formulated by prorating the part-time work to that of a full-time position.

#### Buybacks

The Fairhaven Contributory Retirement Board shall only accept liability for the buyback of service rendered to governmental units within the Fairhaven Contributory Retirement System unless otherwise required by law.

Purchase of part-time, intermittent, less than part-time or substitute service shall be pro-rated as it relates to a full-time position.

A member may purchase creditable service via payroll deduction for a period of no longer than 7 years.

Any member eligible to purchase credit for military service may do so, prior to being retired, via a lump sum payment or payroll deduction (not to exceed a period of 7 years). The amount to be paid will be interest free for a period of 5 years from the member's date of application to purchase said military service and thereafter buyback interest will be charged on the amount/remaining balance due.

#### September 9, 1993:

##### Buy-Backs

The period of time over which members may buy-back prior service is increased to seven years.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Miscellaneous

June 7, 2012

If a retired member or survivor benefit recipient dies without a valid beneficiary on file, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid to his/her surviving spouse. If there is no surviving spouse, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid in equal shares to the surviving natural/legally adopted children of the retiree or survivor benefit recipient upon receipt of the following documentation:

1. A letter of request for payment from the surviving children, which must certify under the pains and penalties of perjury that they are the only known surviving children of said retiree/survivor benefit recipient. This letter must also include each surviving child's signature, address, telephone number and social security number.
2. A copy of each child's birth certificate, which must show the retiree/survivor benefit recipient as parent. If there is no surviving spouse or surviving biological or legally adopted children of the retiree/survivor benefit recipient payment of the balance of annuity and/or pro-rated. retirement allowance shall be paid to his/her estate upon receipt of an estate tax identification number.

#### Travel Regulations

The Fairhaven Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request and are also available on the PERAC website <http://www.mass.gov/perac/Fairhaven>.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2012.

The actuarial liability for active members was	\$29,239,732
The actuarial liability for vested terminated members was	683,490
The actuarial liability for non-vested terminated members was	241,343
The actuarial liability for retired members was	<u>28,604,764</u>
The total actuarial liability was	\$58,769,329
System assets as of that date were	<u>37,256,943</u>
The unfunded actuarial liability was	<u><u>\$21,512,386</u></u>
The ratio of system's assets to total actuarial liability was	63.4%
As of that date the total covered employee payroll was	\$10,430,118

The normal cost for employees on that date was 8.6% of payroll  
 The normal cost for the employer was 5.6% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Service Based

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

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 )
1/1/2012	\$37,256,943	\$58,769,329	\$21,512,386	63.4%	\$10,430,118	206.3%
1/1/2010	\$33,331,890	\$54,097,547	\$20,765,657	61.6%	\$10,027,013	207.1%
1/1/2008	\$40,567,804	\$48,191,998	\$7,624,194	84.2%	\$10,125,461	75.3%
1/1/2007	\$33,696,596	\$46,092,442	\$12,395,846	73.1%	\$9,926,260	124.9%
1/1/2005	\$28,173,087	\$40,220,938	\$12,047,851	70.0%	\$9,240,237	130.4%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Retirement in Past Years</b>										
Superannuation	17	7	4	4	4	6	8	3	5	8
Ordinary Disability	0	0	0	0	0	1	0	0	0	0
Accidental Disability	0	0	0	1	0	1	2	0	1	3
<b>Total Retirements</b>	17	7	4	5	4	8	10	3	6	11
Total Retirees, Beneficiaries and Survivors	179	177	176	175	174	167	162	190	193	198
Total Active Members	302	329	313	308	311	296	281	273	265	269
<b>Pension Payments</b>										
Superannuation	\$1,313,969	\$1,227,264	\$1,543,480	\$1,640,882	\$1,650,596	\$1,733,848	\$1,876,917	\$1,993,479	\$1,995,325	\$2,134,025
Survivor/Beneficiary Payments	54,817	43,563	41,753	43,300	48,935	49,305	56,100	58,443	66,261	81,424
Ordinary Disability	42,732	39,001	45,694	46,774	47,854	56,617	67,766	69,026	70,466	71,906
Accidental Disability	246,541	235,679	275,098	281,068	309,743	339,334	381,607	383,446	411,264	617,345
Other	<u>221,184</u>	<u>399,701</u>	<u>166,840</u>	<u>217,879</u>	<u>174,844</u>	<u>162,525</u>	<u>207,910</u>	<u>181,147</u>	<u>182,405</u>	<u>179,550</u>
<b>Total Payments for Year</b>	<u>\$1,879,243</u>	<u>\$1,945,208</u>	<u>\$2,072,865</u>	<u>\$2,229,903</u>	<u>\$2,231,972</u>	<u>\$2,341,629</u>	<u>\$2,590,300</u>	<u>\$2,685,542</u>	<u>\$2,725,722</u>	<u>\$3,084,250</u>



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