PERAC AUDIT REPORT

Marblehead
Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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October 22, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Marblehead 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.

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

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

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	$446,586	$6,197	$95,937
PRIT Cash Fund	700,096	260,082	170,107
PRIT Core Fund	77,790,029	71,151,230	74,769,134
Accounts Receivable	289,538	1,188,771	1,172,848
Accounts Payable	(6,941)	(621)	(961)
Total	$79,219,308	$72,605,659	$76,207,066
Fund Balances:			
Annuity Savings Fund	$15,346,040	$14,677,946	$14,145,320
Annuity Reserve Fund	7,009,356	6,268,366	6,374,562
Pension Fund	997,958	1,007,762	1,256,891
Military Service Fund	3,090	3,087	3,081
Expense Fund	0	0	0
Pension Reserve Fund	55,862,864	50,648,498	54,427,212
Total	$79,219,308	$72,605,659	$76,207,066

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)	$13,674,886	$6,190,973	$1,161,376	$3,072	$0	$49,291,402	$70,321,708
Receipts	1,629,497	192,277	2,573,739	9	469,453	8,472,764	13,337,739
Interfund Transfers	(1,016,824)	1,011,182	3,342,596	0	0	(3,336,955)	0
Disbursements	(142,239)	(1,019,870)	(5,820,820)	0	(469,453)	0	(7,452,381)
Ending Balance (2010)	14,145,320	6,374,562	1,256,891	3,081	0	54,427,212	76,207,066
Receipts	1,597,305	195,046	2,577,434	6	503,002	(509,208)	4,363,586
Interfund Transfers	(786,864)	786,864	3,269,506	0	0	(3,269,506)	0
Disbursements	(277,816)	(1,088,107)	(6,096,069)	0	(503,002)	0	(7,964,993)
Ending Balance (2011)	14,677,946	6,268,366	1,007,762	3,087	0	50,648,498	72,605,659
Receipts	2,530,499	203,552	2,569,655	3	546,114	9,043,648	14,893,471
Interfund Transfers	(1,704,325)	1,704,325	3,829,282	0	0	(3,829,282)	0
Disbursements	(158,080)	(1,166,887)	(6,408,741)	0	(546,114)	0	(8,279,821)
Ending Balance (2012)	$15,346,040	$7,009,356	$997,958	$3,090	$0	$55,862,864	$79,219,308

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$1,662,541	$1,507,091	$1,457,238
Transfers from Other Systems	457,125	3,425	97,093
Member Make Up Payments and Re-deposits	116,377	43,429	36,068
Member Payments from Rollovers	274,078	12,941	0
Investment Income Credited to Member Accounts	20,378	30,418	39,097
Sub Total	2,530,499	1,597,305	1,629,497
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	203,552	195,046	192,277
Sub Total	203,552	195,046	192,277
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	92,160	84,209	70,940
Received from Commonwealth for COLA and Survivor Benefits	130,210	145,940	155,515
Pension Fund Appropriation	2,347,285	2,347,285	2,347,285
Sub Total	2,569,655	2,577,434	2,573,739
Military Service Fund:			
Investment Income Credited to the Military Service Fund	3	6	9
Sub Total	3	6	9
Expense Fund:			
Investment Income Credited to the Expense Fund	546,114	503,002	469,453
Sub Total	546,114	503,002	469,453
Pension Reserve Fund:			
Federal Grant Reimbursement	11,414	0	234
Interest Not Refunded	703	756	161
Excess Investment Income (Loss)	9,031,532	(509,964)	8,472,370
Sub Total	9,043,648	(509,208)	8,472,764
Total Receipts, Net	$14,893,471	$4,363,586	$13,337,739

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$124,598	$130,711	$60,362
Transfers to Other Systems	33,482	147,105	81,877
Sub Total	158,080	277,816	142,239
Annuity Reserve Fund:			
Annuities Paid	1,166,887	1,082,922	1,019,870
Option B Refunds	0	5,185	0
Sub Total	1,166,887	1,088,107	1,019,870
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,049,366	4,661,593	4,348,179
Survivorship Payments	322,330	306,889	297,677
Ordinary Disability Payments	39,871	61,622	67,989
Accidental Disability Payments	541,616	540,168	579,709
Accidental Death Payments	234,680	291,758	269,107
Section 101 Benefits	16,674	15,686	14,865
3 (8) (c) Reimbursements to Other Systems	73,994	72,413	87,779
State Reimbursable COLA's Paid	108,733	123,591	135,841
Chapter 389 Beneficiary Increase Paid	21,476	22,350	19,674
Sub Total	6,408,741	6,096,069	5,820,820
Expense Fund:			
Board Member Stipend	1,500	1,500	1,500
Salaries	99,567	102,363	99,462
Legal Expenses	11,711	4,331	9,070
Travel Expenses	0	0	69
Administrative Expenses	4,000	3,954	3,552
Professional Services	8,535	0	6,500
Furniture and Equipment	0	842	209
Management Fees	399,060	369,226	329,247
Service Contracts	16,785	15,986	15,225
Fiduciary Insurance	4,957	4,800	4,619
Sub Total	546,114	503,002	469,453
Total Disbursements	$8,279,821	$7,964,993	$7,452,381

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Investment Income Received From:			
Cash	$1,706	$2,211	$2,311
Pooled or Mutual Funds	2,385,859	2,257,608	2,026,511
Total Investment Income	2,387,565	2,259,819	2,028,822
Plus:			
Realized Gains	1,933,380	2,303,417	1,877,255
Unrealized Gains	10,101,707	7,290,054	13,786,876
Sub Total	12,035,087	9,593,471	15,664,131
Less:			
Realized Loss	0	(41,496)	(61,565)
Unrealized Loss	(4,621,074)	(11,593,286)	(8,458,182)
Sub Total	(4,621,074)	(11,634,782)	(8,519,747)
Net Investment Income	9,801,578	218,508	9,173,206
Income Required:			
Annuity Savings Fund	20,378	30,418	39,097
Annuity Reserve Fund	203,552	195,046	192,277
Military Service Fund	3	6	9
Expense Fund	546,114	503,002	469,453
Total Income Required	770,047	728,472	700,836
Net Investment Income	9,801,578	218,508	9,173,206
Less: Total Income Required	770,047	728,472	700,836
Excess Income (Loss) To The Pension Reserve Fund	$9,031,532	($509,964)	$8,472,370

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$446,586	0.6%
PRIT Cash Fund	700,096	0.9%
PRIT Core Fund	77,790,029	98.5%
Grand Total	$78,936,712	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Marblehead Retirement System was 13.89%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Marblehead Retirement System averaged 1.51%. For the 28 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 Marblehead Retirement System was 9.29%.

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 28 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 Marblehead Retirement System voted on to invest all of the system's assets with the PRIT fund. 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 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

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 member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

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 hired prior to 1978, or if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation for members who retire after April 2, 2012 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 three 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 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. Group 4 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.

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, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: 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 is entitled

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $774.36 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. . For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, 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 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

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

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary.

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

ALLOCATION OF PENSION COSTS

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

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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

March 3, 2011

Creditable Service

For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Marblehead Contributory Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Marblehead Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member who has rendered membership service in the Marblehead Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 37.5 hours per week, with said service not to exceed one (1) year of creditable service in any calendar year.

For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the Marblehead Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 37.5 hours per week with said service not to exceed one (1) year of creditable service in any calendar year.

Any member purchasing non-membership part-time service rendered shall have said service prorated based on 37.5 hours per week being considered a full-week of service. Notwithstanding the foregoing, any member who works part-time his/her entire career shall have said service prorated based on the weekly hours worked as a part-time employee, with said service not to exceed one (1) year of creditable service in any calendar year.

Any member who transfers out of the Marblehead Contributory Retirement System to another Massachusetts Contributory Retirement System, shall have all service rendered prorated based on the full-time equivalency of 37.5 hours per week with said service not to exceed one (1) year of creditable service in any calendar year.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 14, 2012
Membership
Any individual who is permanently employed twenty (20) or more hours per week by the Town of Marblehead or any of its departments or by any member unit of the Marblehead Retirement System shall become a member of the Marblehead Retirement System ("System") effective April 2, 2012. In addition to the foregoing, an individual or elected official must earn at least $5,000 per year in regular compensation to be eligible for membership in the System.

November 10, 2010
Permanent employees employed in a less than full-time capacity, will be required to become members of the System if they are scheduled to be employed a minimum of 1,560 hours annually. Permanent part-time employees who satisfy the Board's membership criteria will be enrolled from the date of inception. Individuals, who are not eleigible for membership in the System, will be required to enroll in an alternative retirement plan offered by the Town of Marblehead.

March 26, 2001
Service Liability: The Marblehead Retirement Board will not accept any liability pursuant to the M.G.L. c. 32, § 3(8)(c) for any service that is rendered in the Town of Marblehead, which did not entitle the employee to membership in the Marblehead Retirement System, unless the employee subsequently becomes a member of the Marblehead Retirement System and purchases said service while employed in the Town of Marblehead.

August 30, 2000
Miscellaneous
Recovery of Earnings in Excess of the Statutory Limitations Set Forth in M.G.L. c. 32, § 91A:
If a disability retiree of the Marblehead Retirement System whose earnings exceed the limitations set forth in M.G.L. c. 32, § 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the member's financial needs, not to exceed six months. If the disability retiree elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the member's monthly retirement allowance.

Travel Regulations
The Marblehead 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/03travelreg/marbleheadtravelreg.html.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director/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:	John J. McGinn, Chairman		
Appointed Member:	Charles H. Gessner	Until a successor is appointed	
Elected Member:	Paul E. Jalbert	Term Expires:	8/8/2014
Elected Member:	Calvin E. Powers	Term Expires:	1/18/2015
Appointed Member:	Robert F. Peck, Jr.	Term Expires:	7/27/2013

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

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. 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.

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

Treasurer - Custodian:	)	Fiduciary liability coverage provided to a limit of
Ex-officio Member:	)	$50,000,000 under a master MACRS-sponsored
Elected Members:	)	policy issued through a layered program with
Appointed Members:	)	Travelers Casualty & Surety Co., National Union
Staff Employees:	)	Fire, and Arch Insurance Co. Separate fidelity coverage pertaining to ERISA/Crime to a limit of $1,000,000 issued through Travelers.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$41,473,221
The actuarial liability for retired and inactive members was	66,819,904
The total actuarial liability was	$108,293,125
System assets as of that date were	79,866,225
The unfunded actuarial liability was	$28,426,900
The ratio of system's assets to total actuarial liability was	73.8%
As of that date the total covered employee payroll was	$16,564,039

The normal cost for employees on that date was	8.8% of payroll
The normal cost for the employer was	3.5% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies depending on group, and service 3.75 ultimate periods

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012
(Dollars in 000's)

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	$79,866	$108,293	$28,427	73.7%	$16,564	171.6%
1/1/2010	$77,354	$98,859	$21,505	78.2%	$15,493	138.8%
1/1/2008	$84,443	$93,908	$9,465	89.9%	$15,828	59.8%
1/1/2006	$69,105	$82,948	$13,843	83.3%	$14,160	97.8%

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	15	11	19	9	20	12	12	13	12	21
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	2	1	2	0	1	1	0	1	0	0
Total Retirements	17	12	21	9	21	13	12	14	12	21
Total Retirees, Beneficiaries and Survivors	320	316	320	317	324	322	326	333	332	337
Total Active Members	384	384	370	370	361	354	352	345	342	434 *
Pension Payments										
Superannuation	$2,759,689	$2,939,912	$3,294,906	$3,473,426	$3,650,229	$3,829,040	$4,068,209	$4,348,179	$4,661,593	$5,049,366
Survivor/Beneficiary Payments	46,299	64,863	40,303	38,721	241,629	256,466	263,321	297,677	306,889	322,330
Ordinary Disability	159,962	156,403	149,595	139,754	106,544	83,347	71,563	67,989	61,622	39,871
Accidental Disability	374,812	413,916	499,524	533,045	587,726	581,939	571,975	579,709	540,168	541,616
Other	127,532	129,926	448,897	506,688	452,635	469,504	475,879	527,266	525,797	455,558
Total Payments for Year	$3,468,294	$3,705,020	$4,433,225	$4,691,634	$5,038,763	$5,220,296	$5,450,947	$5,820,820	$6,096,069	$6,408,741

* Reference new membership regulation dated February 14, 2012.

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