

# PERAC AUDIT REPORT



Andover

Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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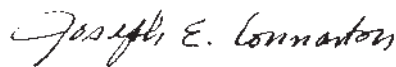
December 18, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Andover Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners James Ryan and 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  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Member Retirement Deductions:**

The auditor reviewed the 2011 year-end payroll register to determine whether the members' rates, base deductions, and 2% additional deductions were reasonably accurate. A list of all pay types or codes used and whether they were included or excluded from the determination of base regular compensation used for retirement contributions was obtained. Member files were inspected for documentation that substantiated their assigned contribution rate, group classification, birth date, veteran's status, creditable service time accumulated, and other documentation in support of their membership classification.

The Andover School Department has an established practice of initiating a bi-weekly pay schedule for its para-professional staff over the portion of the year that their contract terms apply. The purpose is to fairly assess the required 2% additional contribution for earnings in excess of \$30,000 over the number of pay periods remaining in their contract. The result is that these members of the system allocate their exemption for the 2% additional contribution for earnings in excess of \$30,000 over either the 21 or 22 pay periods in their contract resulting in a higher portion of their compensation excluding the 2% additional contribution for each bi-weekly pay period.

The auditor observed 11 members whose annual compensation was in excess of \$30,000 that did not appear to have the requisite 2% additional contribution deducted. This occurred when the member was compensated for additional qualified service on additional pay periods beyond their contractual schedule. The system applied an additional exemption to the 2% additional contribution for earnings in excess of \$30,000 to these additional pay periods. The auditor observed the 2% exemption was often calculated on a 26 pay period basis. This was inconsistent with the basis established for the members' regular assigned contribution rates and pay schedules.

The system administrator initiated an annual review in an effort to identify contributions lost or delayed due to this practice. Several members were notified that the requisite 2% additional contribution was owed to the system. Recovery was made in most cases.

The auditor concludes the current procedure does not adequately alert or notify the Retirement System of their responsibility to comply with the current statutory and PERAC regulatory interpretation of the 2% additional contribution for earnings in excess of \$30,000. The discretion exercised by the School Department in setting up members for specified pay periods and then abruptly changing the established pay basis demonstrates that there needs to be more consultation with the Retirement Board to implement compliance within the guidelines of G.L. c. 32.

**Recommendation:** Although the Retirement System staff works closely with payroll staff to ensure a member's retirement withholdings are accurate, continued oversight is required. According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay on any given pay-period exceeds an annualized rate of \$30,000 are subject to the additional 2% withholding. The Board must instruct payroll officials to deduct the additional 2% every pay period that earnings exceed this annualized rate of \$30,000. The Board should actively provide direction to the Town's Payroll Officers, School Department as well as the Information Technology Department to ensure the payroll system complies with the statute and PERAC directives listed above. To avoid the situations cited above,

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

implementing a standard base schedule based on 52 weekly or 26 bi-weekly pay periods would eliminate many of the concerns cited in this finding.

### **Board Response:**

The Retirement Board had previously identified this issue, and corrective action measures were instituted, prior to 12/31/2011 and the audit that generated this Report. The Retirement Board reviewed PERAC memo 33/2011 and determined that two pay codes being used by the School Department were for "extra hours" worked and should not be considered regular compensation, as per the new regulations. The Retirement Board had sent a memo to the School Department Payroll Coordinator and School Accountant informing them that these extra hours should no longer be considered regular compensation. The Retirement Board feels this has alleviated the matter.

### **2. Wire Transfers:**

There is no formal Board approval of the actual amount of wire transfers processed during the month. The related paperwork to substantiate the wire transfer audit trail is discarded and not available for review.

The auditor reviewed wire transfers transactions initiated and processed over the three year audit period. It was observed that a monthly Board vote is taken to approve a wire transfer into the checking account based on an estimated amount within a range normally up to \$750,000. The Board administrator provides the range amount based upon the checking account balance Excel spreadsheet forecast she prepares at or around the date of the Board meeting. This document is not presented to the Board for review.

The administrator posts all journal entries and processes all financial documents for the Board. In addition, the administrator initiates and approves the request for wire transfer paperwork. This individual also serves as an elected Board member. The paperwork to substantiate the parties involved in the wire transfer is discarded.

**Recommendation:** Due to limited segregation of duties relating to the initiation and general ledger posting of wire transfers, the Board must approve all wire transfers on the monthly expenditure warrant document. All related forms prepared by the Board staff and other parties to the wire should be maintained as support of the Board's approval of the monthly expenditure warrant.

### **Board Response:**

The Retirement Board disagrees with this finding in that all wire transfer transactions are reflected in the Board minutes AND in the PRIT Statement provided to the Board each and every month. The only documentation not kept by the Retirement Board was the fax transmissions for wire transfers. The fax transmissions are being kept along with the monthly statements, as recommended.

### **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,		
	2011	2010	2009
<b>Net Assets Available For Benefits:</b>			
Cash	\$640,176	\$645,293	\$454,184
PRIT Cash Fund	42	500,093	350,086
PRIT Core Fund	86,559,098	85,139,188	76,832,171
Accounts Receivable	67,959	2,729,153	2,615,163
Accounts Payable	(699)	(350)	(200)
<b>Total</b>	<u>\$87,266,576</u>	<u>\$89,013,376</u>	<u>\$80,251,404</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$33,710,408	\$31,880,938	\$31,661,494
Annuity Reserve Fund	10,104,356	9,875,995	8,145,025
Pension Fund	0	0	0
Military Service Fund	8,238	8,222	8,197
Expense Fund	0	0	0
Pension Reserve Fund	43,443,575	47,248,222	40,436,688
<b>Total</b>	<u>\$87,266,576</u>	<u>\$89,013,376</u>	<u>\$80,251,404</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 (2009)	\$29,733,340	\$8,021,051	(\$563,655)	\$8,156	\$0	\$32,326,840	\$69,525,733
Receipts	3,301,275	239,038	5,021,457	41	575,860	10,752,083	19,889,754
Interfund Transfers	(1,026,584)	1,023,105	2,645,714	0	0	(2,642,235)	0
Disbursements	(346,537)	(1,138,169)	(7,103,516)	0	(575,860)	0	(9,164,083)
Ending Balance (2009)	31,661,494	8,145,025	0	8,197	0	40,436,688	80,251,404
Receipts	3,402,881	268,323	5,117,787	25	559,164	9,472,749	18,820,929
Interfund Transfers	(2,813,289)	2,813,185	2,661,320	0	0	(2,661,215)	0
Disbursements	(370,148)	(1,350,538)	(7,779,106)	0	(559,164)	0	(10,058,956)
Ending Balance (2010)	31,880,938	9,875,995	0	8,222	0	47,248,222	89,013,376
Receipts	3,476,617	292,626	5,381,201	16	603,782	(812,062)	8,942,182
Interfund Transfers	(1,385,726)	1,389,993	2,988,318	0	0	(2,992,585)	0
Disbursements	(261,422)	(1,454,259)	(8,369,519)	0	(603,782)	0	(10,688,982)
Ending Balance (2011)	<u>\$33,710,408</u>	<u>\$10,104,356</u>	<u>\$0</u>	<u>\$8,238</u>	<u>\$0</u>	<u>\$43,443,575</u>	<u>\$87,266,576</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Members Deductions	\$3,077,945	\$3,019,585	\$3,085,653
Transfers from Other Systems	236,734	267,497	1,021
Member Make Up Payments and Re-deposits	31,470	18,178	49,971
Member Payments from Rollovers	57,254	5,030	19,215
Investment Income Credited to Member Accounts	<u>73,214</u>	<u>92,592</u>	<u>145,415</u>
Sub Total	<u>3,476,617</u>	<u>3,402,881</u>	<u>3,301,275</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>292,626</u>	<u>268,323</u>	<u>239,038</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	283,633	231,106	174,489
Pension Fund Appropriation	112,611	119,554	207,341
Settlement of Workers' Compensation Claims	4,984,957	4,767,127	4,632,127
	<u>0</u>	<u>0</u>	<u>7,500</u>
Sub Total	<u>5,381,201</u>	<u>5,117,787</u>	<u>5,021,457</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>16</u>	<u>25</u>	<u>41</u>
Sub Total	<u>16</u>	<u>25</u>	<u>41</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>603,782</u>	<u>559,164</u>	<u>575,860</u>
Sub Total	<u>603,782</u>	<u>559,164</u>	<u>575,860</u>
<b>Pension Reserve Fund:</b>			
Interest Not Refunded	2,897	3,362	1,257
Miscellaneous Income	55	11,175	48,750
Excess Investment Income (Loss)	<u>(815,013)</u>	<u>9,458,212</u>	<u>10,702,077</u>
Sub Total	<u>(812,062)</u>	<u>9,472,749</u>	<u>10,752,083</u>
<b>Total Receipts, Net</b>	<u>\$8,942,182</u>	<u>\$18,820,929</u>	<u>\$19,889,754</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2011	2010	2009
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$185,747	\$235,946	\$232,217
Transfers to Other Systems	<u>75,674</u>	<u>134,202</u>	<u>114,320</u>
Sub Total	<u>261,422</u>	<u>370,148</u>	<u>346,537</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,444,728	1,307,353	1,138,169
Option B Refunds	<u>9,530</u>	<u>43,185</u>	<u>0</u>
Sub Total	<u>1,454,259</u>	<u>1,350,538</u>	<u>1,138,169</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	6,409,730	5,974,591	5,412,685
Survivorship Payments	455,069	392,647	368,941
Ordinary Disability Payments	74,420	84,965	84,862
Accidental Disability Payments	1,130,337	1,018,417	956,926
Accidental Death Payments	134,222	132,782	131,342
3 (8) (c) Reimbursements to Other Systems	165,741	175,705	148,760
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,369,519</u>	<u>7,779,106</u>	<u>7,103,516</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	6,000	6,000	6,000
Salaries	123,770	119,182	116,153
Legal Expenses	5,105	5,017	5,633
Travel Expenses	2,156	792	1,600
Administrative Expenses	2,471	30,977	16,084
Furniture and Equipment	3,336	912	0
Management Fees	434,767	371,292	403,620
Service Contracts	19,845	18,900	21,144
Fiduciary Insurance	<u>6,332</u>	<u>6,092</u>	<u>5,625</u>
Sub Total	<u>603,782</u>	<u>559,164</u>	<u>575,860</u>
<b>Total Disbursements</b>	<u>\$10,688,982</u>	<u>\$10,058,956</u>	<u>\$9,164,083</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Pooled or Mutual Funds	2,639,555	2,279,855	2,066,489
<b>Total Investment Income</b>	<u>2,639,555</u>	<u>2,279,855</u>	<u>2,066,489</u>
<b>Plus:</b>			
Realized Gains	2,680,070	2,115,455	1,553,506
Unrealized Gains	8,627,869	15,559,431	18,277,579
Sub Total	<u>11,307,939</u>	<u>17,674,885</u>	<u>19,831,085</u>
<b>Less:</b>			
Realized Loss	(50,177)	(69,492)	(4,923,344)
Unrealized Loss	(13,742,692)	(9,506,933)	(5,311,799)
Sub Total	<u>(13,792,869)</u>	<u>(9,576,425)</u>	<u>(10,235,143)</u>
<b>Net Investment Income (Loss)</b>	<u>154,626</u>	<u>10,378,316</u>	<u>11,662,431</u>
<b>Income Required:</b>			
Annuity Savings Fund	73,214	92,592	145,415
Annuity Reserve Fund	292,626	268,323	239,038
Military Service Fund	16	25	41
Expense Fund	603,782	559,164	575,860
<b>Total Income Required</b>	<u>969,639</u>	<u>920,104</u>	<u>960,354</u>
Net Investment Income (Loss)	<u>154,626</u>	<u>10,378,316</u>	<u>11,662,431</u>
Less: Total Income Required	<u>969,639</u>	<u>920,104</u>	<u>960,354</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$815,013)</u>	<u>\$9,458,212</u>	<u>\$10,702,077</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$640,176	0.7%
PRIT Cash Fund	42	0.0%
PRIT Core Fund	<u>86,559,098</u>	<u>99.3%</u>
<b>Grand Total</b>	<u>\$87,199,317</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Andover Retirement System was 0.31%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Andover Retirement System averaged -0.07%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Andover Retirement System was 8.11%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

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

### October 22, 2007

The Andover Retirement System voted on October 22, 2007 to invest all of the system's assets with the PRIT fund as of October 22, 2007. 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 Andover Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

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

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

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

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

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

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. 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 \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

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

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

### METHODS OF PAYMENT

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### ALLOCATION OF PENSION COSTS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board (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 Andover Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership

April 27, 2011

Any individual who is permanently employed twenty (20) or more hours per week by the Town of Andover, Andover Public Schools, the Andover Housing Authority or the Andover Retirement Board shall become a member of the Andover Retirement System ("System"). 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. Elected officials are not required to satisfy the 20 hour per week minimum criteria.

January 5, 2000

The Board voted to give members who are eligible to purchase active duty military service a choice of when to begin their military buyback, just as regular municipal make-ups are handled. PERAC's guidelines require the member to apply for permission to do the makeup within the 180-day window, but nothing in the law requires the member to begin payment at that time.

October 30, 1996

Retirement Board voted to accept Veterans buyback – Chapter 71 of the Acts of 1996, with the following stipulations: the buyback must be completed (paid in full) within 5 years, the minimum payment per week will be \$10, and no interest will be charged.

September 29, 1995

Retirement Board voted to place emergency fire/police signal operators to Group 2 (dispatchers).

June 28, 1991

Retirement Board voted that effective 09/01/1991 any employee working 20 hours or more per week in a permanent position (except seasonal and substitutes) will have mandatory retirement deductions taken from day one of their employment; any employee working less than 20 hours per week would have mandatory OBRA (or social security) deductions taken.

October 29, 1970

Retirement Board voted to grant membership to crossing guards.

#### Creditable Service

October 14, 2009

#### FURLOUGH AND/OR SALARY REDUCTION DUE TO BUDGET RESTRICTIONS

Members in service of the Andover Contributory Retirement System shall receive a full year of creditable service for each calendar year in which the member receives regular compensation as an employee, provided that the employee is not removed from the payroll in excess of thirty (30) days in the aggregate, irrespective of whether those days are consecutive or not.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Members in service of the Andover Contributory Retirement System who receive a reduction in compensation in lieu of or in addition to being furloughed for not less than 30 days shall have their retirement calculated based on the rate of regular compensation which was in effect immediately preceding the furlough or reduction in compensation.

Members in service of the Andover Contributory Retirement System who have their hours of employment reduced will be considered to be furloughed employees, and thus their regular compensation for the purpose of retirement will be calculated by using the rate of regular compensation in effect prior to the reduction in hours.

October 31, 1972:

Retirement Board voted to grant a full year of creditable service for each year of service performed by an employee working in a permanent part time position of 20 hours or more per week.

July 1, 1937

The Retirement Board does not accept liability for substitute service of any nature.

#### Regular Compensation

July 18, 2006

Retirement Board voted not to take retirement deductions from the following payments (effective dates are noted, if applicable):

#### Andover Independent Employees Association (AIEA):

Effective immediately:

Tuition Reimbursement

Education Incentive (one time payments – not regular and recurring)

Effective 07/01/2007:

15% longevity increase for 26-week period

#### American Federation of State, County, and Municipal Employees (AFSCME):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 8-week period

#### Andover Public Safety Emergency Signal Operators/Communicators (Dispatchers):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 16-week period for members w/ 30 or more years service

15% longevity increase for 8-week period for member w/ less than 30 years service

#### Town of Andover Department Heads (Dept Heads):

Effective 07/01/2007:

15% longevity increase for 52-week period

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

International Association of Firefighters, Local 1658, AFL-CIO (Firefighter):

Effective 07/01/2007:

15% longevity increase for 52-week period

Andover Police Patrolmen's Union (APPO):

Effective 07/01/2007:

15% longevity increase for 52-week period

Andover Police Superior Officers Association (Superior Officers):

Effective 07/01/2007:

15% longevity increase for 52-week period

September 30, 1997

Retirement Board voted to take retirement deductions from minutes takers salary (as long as it is not paid as overtime and the work is regular and recurring).

April 30, 1996

Retirement Board voted to take retirement deductions from employees doing fire alarm service.

June 29, 1995

Retirement Board voted not to take retirement deductions on sick days sold back at end of year.

Miscellaneous

August 14, 2009

#### GROUP CLASSIFICATION

Full-time employees who serve as full-time public safety dispatchers for the Town of Andover are considered by the Retirement Board to be performing updated duties of Fire and Police Signal Operators, as listed in G.L. c. 32, § 3(2) (g) Group 2, provided that no member who attains age sixty-five (65) while classified in Group 1 may thereafter be classified in Group 2.

This Supplemental Local Rule re-affirms the Andover Retirement Board's prior determination that its public safety dispatchers are classified as members of Group 2 and re-affirms its prior decision and will perform all calculations based upon the timing of the creation of its prior policy.

December 17, 2007

Any documents held in the retirement office that are scheduled for destruction which contain confidential information (ie, SSN, date of birth, etc) will be shredded before discarding or recycling.

February 22, 2006

Monthly premiums for a retiree and/or survivor's health insurance will be deducted from his/her gross monthly retirement check automatically unless their monthly check does not cover the full premium for their health insurance, in which case, the person will be billed monthly

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

February 23, 2001

The spouse of any married employee retiring under Mass General Laws chapter 32 must sign the acknowledgment of his or her retiring spouse's option choice in the presence of an Andover Contributory Retirement System staff or Board member

#### Travel Regulations

The Andover 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/Andover>.

## 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:	Rodney P. Smith	Vacant
Appointed Member:		Term Expires:
Elected Member:	James A. Cuticchia, Chairman	Term Expires: 12/4/14
Elected Member:	Elena M. Kothman	Term Expires: 11/15/13
Appointed Member:	Anthony K. Stankiewicz, Esq.	Term Expires: 6/30/14

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:	)	MACRS Blanket Policy
Ex-officio Member:	)	\$50,000,000 Fiduciary Liability
Elected Members:	)	\$50,000,000 Fiduciary Liability
Appointed Members:	)	St. Paul Travelers Insurance Company
Staff Employees:	)	National Union Fire

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$93,555,676
The actuarial liability for inactive members was	3,220,477
The actuarial liability for retired members was	<u>95,757,503</u>
The total actuarial liability was	\$192,533,656
System assets as of that date were	<u>95,691,831</u>
The unfunded actuarial liability was	<u>\$96,841,825</u>
The ratio of system's assets to total actuarial liability was	49.7%
As of that date the total covered employee payroll was	\$34,435,678

The normal cost for employees on that date was 9.3% of payroll

The normal cost for the employer including expenses was 5.8% of payroll

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

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies based on group and service per annum

#### 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	\$95,691,831	\$192,533,656	\$96,841,825	49.7%	\$34,435,678	281.2%
1/1/2010	\$92,289,115	\$167,447,259	\$75,158,144	55.1%	\$32,416,115	231.9%
1/1/2007	\$99,952,824	\$136,899,310	\$36,946,486	73.0%	\$30,468,282	121.3%
1/1/2004	\$81,431,000	\$104,232,000	\$22,801,000	78.1%	\$27,551,000	82.8%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retirement in Past Years</b>										
Superannuation	11	1	4	11	19	18	14	16	27	17
Ordinary Disability	0	0	0	1	0	0	0	0	0	0
Accidental Disability	4	0	2	5	0	0	0	2	2	2
<b>Total Retirements</b>	15	1	6	17	19	18	14	18	29	19
Total Retirees, Beneficiaries and Survivors	330	335	342	356	366	371	376	362	381	393
Total Active Members	821	761	748	764	771	756	747	679	677	706
<b>Pension Payments</b>										
Superannuation	\$3,207,086	\$3,313,541	\$3,608,586	\$3,824,774	\$4,075,576	\$4,520,162	\$5,070,574	\$5,412,685	\$5,974,591	\$6,409,730
Survivor/Beneficiary Payments	265,685	216,712	255,274	288,147	316,974	349,498	350,258	368,941	392,647	455,069
Ordinary Disability	104,786	97,502	96,429	87,184	94,349	95,315	96,279	84,862	84,965	74,420
Accidental Disability	522,458	698,228	707,546	850,198	944,411	901,831	910,975	956,926	1,018,417	1,130,337
Other	138,411	159,244	143,349	144,411	244,555	252,209	283,451	280,102	308,487	299,963
<b>Total Payments for Year</b>	<u>\$4,238,426</u>	<u>\$4,485,227</u>	<u>\$4,811,184</u>	<u>\$5,194,714</u>	<u>\$5,675,865</u>	<u>\$6,119,015</u>	<u>\$6,711,537</u>	<u>\$7,103,516</u>	<u>\$7,779,106</u>	<u>\$8,369,519</u>

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