

# PERAC AUDIT REPORT



Montague Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

December 22, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Montague Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. 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 Harry Chadwick and Robert Madison who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS

### **I. Membership:**

The System calculates retirement benefits by relying on the contributions members made to the System as the primary source for the three-year average salary component. No department head or supervisor approval was noted. Verification of payroll information was not evident in the files inspected.

#### **Recommendation:**

Actual payroll records should be used when calculating retirement benefits as required under G.L. c. 32, § 5. The Board should require that department heads review and confirm the payroll records of prospective retirees. Confirming retirement benefits with actual payroll records serves the related purpose of verifying that members' records are maintained accurately on an on-going basis by the Retirement Board. Calculating earnings solely from the amount of contributions attributed to a member may result in some discrepancy in the benefit the member is entitled. The Administrator should perform a review of retirements calculated using this alternative method. Revisions identified as a result of this review must be submitted to PERAC for approval.

#### **Board Response:**

The Montague Retirement System has implemented this recommendation.

### **2. Review of Minutes:**

A review of the Minutes revealed a significant level of absenteeism. The absentee percentages for two Board members during the audit period ranged from approximately thirty-three percent to forty-two percent. In addition, the newest Board member, recently elected by the members of the System, has been absent from approximately fifty-five percent of the meetings held during calendar year 2006. The Board has already recognized this member's absenteeism to be an issue and has sent a letter informing the member that continued absences could result in being asked to leave the Board. The overall result is an attendance rate well below the seventy-five percent minimum considered reasonable for each of the three years evaluated. Such a level of absenteeism is considered to be excessive.

#### **Recommendation:**

Board members are expected to attend all scheduled Board meetings. The Board may want to consider changing the times of Board meetings in order to accommodate Board member's schedules. An absentee rate that exceeds twenty-five percent is not considered reasonable. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

#### **Board Response:**

The meeting dates are now set around the schedules of members to minimize absences.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **3. Affidavits:**

Signatures on Power of Attorney forms were compared to the actual signatures on returned affidavits on file with the Board. We noted several signatures on the Power of Attorney forms did not match the signatures appearing on the Board's affidavits. The signature of the Power of Attorney must match the signature on the Board's affidavit form in order to constitute a valid confirmation that the retiree remains entitled to a continuing benefit.

#### **Recommendation:**

The Board must require that all Power of Attorney forms contain valid signatures of the individuals' named as Power of Attorney. Any power of attorney, legal guardianship, representative or any other legally binding declaration should have the signature of the named legal representative in the retiree's file.

#### **Board Response:**

The Montague Retirement System will require that any future Power of Attorney forms contain the signatures of the individuals named as Power of Attorney.

#### **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,		
	2005	2004	2003
<b>Net Assets Available For Benefits:</b>			
Cash	\$51,628	\$9,562	\$40,596
PRIT Cash Fund	80,485	65,198	65,089
PRIT Core Fund	19,604,009	17,469,235	15,283,001
Accounts Receivable	1,176	36,900	8,238
Accounts Payable	(0)	0	(1,058)
<b>Total</b>	<u>\$19,737,297</u>	<u>\$17,580,895</u>	<u>\$15,395,866</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$4,009,613	\$3,769,478	\$3,568,091
Annuity Reserve Fund	1,589,754	1,648,956	1,614,724
Pension Fund	230,258	234,263	309,993
Military Service Fund	1,573	1,564	1,554
Expense Fund	0	0	0
Pension Reserve Fund	<u>13,906,099</u>	<u>11,926,634</u>	<u>9,901,505</u>
<b>Total</b>	<u>\$19,737,297</u>	<u>\$17,580,895</u>	<u>\$15,395,866</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 (2003)	\$3,910,839	\$1,167,696	\$263,105	\$3,268	\$0	\$6,919,586	\$12,264,494
Receipts	512,517	35,975	1,073,564	671	127,663	2,981,808	4,732,197
Inter Fund Transfers	(546,331)	553,418	(4,813)	(2,385)	0	110	(0)
Disbursements	(308,933)	(142,366)	(1,021,863)	0	(127,663)	0	(1,600,824)
Ending Balance (2003)	3,568,091	1,614,724	309,993	1,554	0	9,901,505	15,395,866
Receipts	629,259	48,323	1,163,835	9	156,581	2,025,129	4,023,136
Inter Fund Transfers	(164,942)	164,942	0	0	0	0	0
Disbursements	(262,930)	(179,032)	(1,239,565)	0	(156,581)	0	(1,838,107)
Ending Balance (2004)	3,769,478	1,648,956	234,263	1,564	0	11,926,634	17,580,895
Receipts	511,545	48,692	1,257,811	10	179,487	1,979,465	3,977,009
Inter Fund Transfers	(85,816)	85,816	0	0	0	0	0
Disbursements	(185,594)	(193,710)	(1,261,816)	0	(179,487)	0	(1,820,607)
Ending Balance (2005)	<u>\$4,009,613</u>	<u>\$1,589,754</u>	<u>\$230,258</u>	<u>\$1,573</u>	<u>\$0</u>	<u>\$13,906,099</u>	<u>\$19,737,297</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Members Deductions	\$458,677	\$423,955	\$414,279
Transfers from Other Systems	5,610	165,575	31,052
Member Make Up Payments and Re-deposits	9,097	18,804	21,376
Member Payments from Rollovers	17,110	0	9,489
Investment Income Credited to Member Accounts	<u>21,052</u>	<u>20,926</u>	<u>36,320</u>
Sub Total	<u>511,545</u>	<u>629,259</u>	<u>512,517</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>48,692</u>	<u>48,323</u>	<u>35,975</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	41,990	26,792	18,060
Received from Commonwealth for COLA and Survivor Benefits	8,007	50,169	52,192
Pension Fund Appropriation	<u>1,207,814</u>	<u>1,086,874</u>	<u>1,003,312</u>
Sub Total	<u>1,257,811</u>	<u>1,163,835</u>	<u>1,073,564</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	662
Investment Income Credited to the Military Service Fund	<u>10</u>	<u>9</u>	<u>9</u>
Sub Total	<u>10</u>	<u>9</u>	<u>671</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>179,487</u>	<u>156,581</u>	<u>127,663</u>
Sub Total	<u>179,487</u>	<u>156,581</u>	<u>127,663</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	9,435	0	5,279
Interest Not Refunded	654	2,777	12,485
Miscellaneous Income	8,093	15,276	0
Excess Investment Income	<u>1,961,283</u>	<u>2,007,076</u>	<u>2,964,044</u>
Sub Total	<u>1,979,465</u>	<u>2,025,129</u>	<u>2,981,808</u>
<b>Total Receipts</b>	<b><u>\$3,977,009</u></b>	<b><u>\$4,023,136</u></b>	<b><u>\$4,732,197</u></b>



STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$48,192	\$167,961	\$137,363
Transfers to Other Systems	<u>137,403</u>	<u>94,969</u>	<u>171,571</u>
Sub Total	<u>185,594</u>	<u>262,930</u>	<u>308,933</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	193,710	179,032	142,366
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>193,710</u>	<u>179,032</u>	<u>142,366</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	917,461	893,530	713,874
Survivorship Payments	51,049	47,335	50,657
Ordinary Disability Payments	0	0	42
Accidental Disability Payments	182,527	151,951	130,911
Accidental Death Payments	29,384	60,946	59,728
3 (8) (c) Reimbursements to Other Systems	<u>81,396</u>	<u>85,803</u>	<u>66,651</u>
Sub Total	<u>1,261,816</u>	<u>1,239,565</u>	<u>1,021,863</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	0	0	0
Salaries	57,251	55,515	50,135
Legal Expenses	3,538	1,075	360
Medical Expenses	442	0	0
Travel Expenses	4,712	4,774	2,167
Administrative Expenses	12,340	27,634	18,493
Management Fees	99,687	66,071	56,507
Fiduciary Insurance	<u>1,517</u>	<u>1,511</u>	<u>0</u>
Sub Total	<u>179,487</u>	<u>156,581</u>	<u>127,663</u>
<b>Total Disbursements</b>	<u><b>\$1,820,607</b></u>	<u><b>\$1,838,107</b></u>	<u><b>\$1,600,824</b></u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Investment Income Received From:</b>			
Cash	\$776	\$502	\$318
Pooled or Mutual Funds	<u>597,091</u>	<u>537,025</u>	<u>434,137</u>
<b>Total Investment Income</b>	<u>597,867</u>	<u>537,526</u>	<u>434,455</u>
<b>Plus:</b>			
Realized Gains	1,120,099	1,056,191	405,294
Unrealized Gains	1,863,227	1,500,123	2,640,637
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,983,326</u>	<u>2,556,314</u>	<u>3,045,931</u>
<b>Less:</b>			
Realized Loss	0	0	(35,383)
Unrealized Loss	(1,370,669)	(860,924)	(280,994)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(1,370,669)</u>	<u>(860,924)</u>	<u>(316,376)</u>
<b>Net Investment Income</b>	<u>2,210,524</u>	<u>2,232,916</u>	<u>3,164,010</u>
<b>Income Required:</b>			
Annuity Savings Fund	21,052	20,926	36,320
Annuity Reserve Fund	48,692	48,323	35,975
Military Service Fund	10	9	9
Expense Fund	<u>179,487</u>	<u>156,581</u>	<u>127,663</u>
<b>Total Income Required</b>	<u>249,241</u>	<u>225,839</u>	<u>199,966</u>
Net Investment Income	<u>2,210,524</u>	<u>2,232,916</u>	<u>3,164,010</u>
Less: Total Income Required	<u>249,241</u>	<u>225,839</u>	<u>199,966</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$1,961,283</u>	<u>\$2,007,076</u>	<u>\$2,964,044</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$51,628	0.3%	0% - 100%
PRIT Cash Fund	80,485	0.4%	0% - 100%
PRIT Core Fund	<u>19,604,009</u>	<u>99.3%</u>	0% - 100%
<b>Grand Total</b>	<u>\$19,736,121</u>	<u>100.0%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Montague Retirement System was 12.69%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Montague Retirement System averaged 7.07%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Montague Retirement System was 10.61%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Montague Retirement System has not submitted any supplementary investment regulations for approval to PERAC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Montague 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 106 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, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

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

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

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

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## 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, 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”.

**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. 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 \$611.28 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.



## 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 \$312 per year, per child, 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 \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

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

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.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

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

### METHODS OF PAYMENT

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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 Montague Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 19, 1991

#### Membership

1. All employees must be considered regular employees to be eligible for membership in the retirement system. Temporary, seasonal or intermittent employees are not eligible for membership. Part time employees who work a minimum of twenty hours a week must become members of the system.
2. Temporary employees who become permanent employees shall have the option of buying back their time worked as temporary employees.
3. Any waiting period for retirement purposes shall be deemed as having begun at the original date of hire or the date when the employee began working twenty or more hours a week, whichever is earlier.

#### Creditable service

1. Full time employees will receive one full year of creditable service for each year employed.
2. Employees who work a minimum of thirty five hours per week will be considered full time
3. Part time employees whose positions have always been part time are granted full creditable service for each year employed
4. A part time employee who becomes full time will have the part time service prorated based on the normal hours for that department.
5. Upon becoming a member, an employee may buy back time worked at less than 20 hours per week, when ineligible for membership.

Creditable service for call fire fighters and reserve police officers The Board shall credit as full time service not to exceed five years that period of time during which a reserve or intermittent police officer or a reserve, permanent intermittent or call fire fighter was on his respective list and was eligible for assignment to duty subsequent to his appointment. Such service as a reserve permanent intermittent or call fire fighter shall be credited only if later appointed as a permanent member of the fire department.

#### Membership and creditable service for school employees

1. Cafeteria workers and Teacher Aides who are regularly employed working a full school year for a minimum of twenty hours a week and are permanent employees with a stated hourly or weekly rate of compensation must become members of the system. An exception is granted to teacher Aides hired prior to September, 1985.
2. School employees who work the full school year receive one full year of creditable service.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Miscellaneous provisions

1. The Board will elect officers annually at the August or September meeting and within 60 days of the chairman leaving the Board.
2. Employees on an unpaid leave of absence (who are not receiving workers' compensation) will not receive creditable service time for the leave of absence. Members will receive full service credit for a fully compensated leave of absence. Those members who are granted partial compensation for a leave of absence will receive partial service credit. AMENDED 5/11/98.
3. Health insurance, life insurance, unemployment and workers' compensation benefits for retirement board staff shall be in conjunction with those of the Town of Montague. In lieu of the added expense to the Board to be passed on to the members of the system, the Board shall allow direct payment by the Town of Montague for staff benefits.

January 19, 1996

#### Disability benefit/accidental death benefit determination

Process Series of rules for conduct of Board hearings in disability retirement and accidental death cases. Board to designate a hearing officer to conduct such hearings, etc.

December 16, 1996

#### Veterans' buybacks

The buy back requirement for eligible members pertaining to chapter 71 of the acts of 1996 shall be payable in one lump sum and paid within five years of the date of application.

March 27, 1997

#### Veterans' buybacks

If a dual service veteran requests a buy-back under the provisions of chapter 71 of the acts of 1996, and that veteran is a full-time employee within the Montague Retirement System (MRS) (or has a majority of his/her hours within our system), the MRS will offer to have the buy-back made to the MRS. If the veteran is a full time employee within another retirement system which has accepted the provisions of chapter 71 (or has a majority of his/her current hours in that system), the MRS will request that the buy-back be made to the other retirement system.

May 11, 1998 Creditable service

Members on an unpaid leave of absence (who are not receiving workers' compensation) will receive up to one-month creditable service for the leave of absence. Members will receive full service credit for a fully compensated leave of absence. Those members who are granted partial compensation for a leave of absence will receive partial service credit. This provision is retroactive to January 1, 1997.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### May 12, 2000 Creditable Service

# 2 – Prorating creditable service for part time employment. Upon becoming a member, an employee may buy back time worked at less than twenty hours per week, when ineligible for membership. Prorating of part time creditable service (less than twenty hours per week) shall be based on full time equivalency of twenty hours per week.

# 3 – Prorating creditable service for part time employment. Temporary employees who become permanent employees shall have the option of buying back their time worked as temporary employees with this service prorated based on the actual hours worked (see creditable service #2).

#### September 19, 2000 Repayments of erroneous benefits

The board will allow repayment of erroneous benefits either by lump sum payment or monthly payments. If monthly payments are chosen, the repayment period may not exceed the length of time over which the erroneous payment was made.

#### March 5, 2002 Military Substitutes

All temporary military substitutes who are appointed for one year or more to fill a position of a member on military leave are eligible for membership upon appointment. All temporary military substitutes who are {initially} appointed for less than one year shall become a member when employed in that position for one year or more. A temporary military substitute who did not become a member upon appointment shall have the option of buying back their time worked to the original date of appointment.

#### January 22, 2003

Travel regulations approved by PERAC are on file.

#### March 7, 2005

##### A. ELIGIBILITY

1. All employees must be considered regular employees to be eligible for membership in the system. Temporary, seasonal or intermittent employees are not eligible for membership with the exception of temporary military substitutes.

2. All temporary military substitutes who are appointed for one year or more to fill a position of a member on military leave are eligible for membership upon appointment. All temporary military substitutes who are (initially) appointed for less than one year shall become a member when

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

employed in that position for one year or more. A temporary military substitute who did not become a member upon appointment shall have the option of buying back their time worked to the original date of appointment.

3. Part-time employees who work a minimum of twenty hours a week must become members of the system.

4. Temporary employees who become permanent employees shall have the option of buying back their time worked as temporary employees with this service prorated based on the actual hours worked (see #B2).

5. ...

6. In the case of an individual being appointed to fill the term of a paid elected position, the following shall apply:

- If the individual is currently a member of the Montague Retirement System, the individual shall be credited for full-time service for the duration of the appointment.
- If the individual is not a member of the Montague Retirement System, they shall not be eligible for membership until such time as the individual is elected to the position and selects membership in the Montague Retirement System.

7. A member who takes an additional job within the Montague Retirement System shall have those wages treated as regular compensation [consistent with 840 CMR 15.03], regardless of whether their current position(s) is/are full-time or part-time.

#### B. CREDITABLE SERVICE

1. Full-time and part-time members will receive one full year of creditable service for each year employed.

2. Upon becoming a member, an employee may buy back time worked at less than twenty hours per week, when ineligible membership. Pro-ration of part-time creditable service (less than twenty hours per week) shall be based on full-time equivalency of twenty hours per week.

3. Members on an unpaid leave of absence (who are not receiving workers compensation) will receive up to one month creditable service for the leave of absence. Members will receive full service credit for a fully compensated leave of absence. Those members who are granted partial compensation for a leave of absence will receive partial service credit. This provision is retroactive to January 1, 1997.



## NOTES TO FINANCIAL STATEMENTS (Continued)

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

4. Former employees who were excluded from membership by rules of the Board at the time of their employment are not eligible to buy back creditable service from the Montague Retirement System. These individuals may purchase this creditable service from their current system under MGL Ch 32 Section 3 (5). This section shall not apply to employees under #DI.

5. The Board shall not grant creditable service for time worked on "Outside Details." However, the Board shall allow a member to buy back pro-rated creditable service for employment as a part-time Police Officer for the Town of Montague, regardless of whether the member was on an approved civil service list. Such service shall not be granted during the period for which a member receives creditable service under #CI. Such creditable service shall be dependent on adequate payroll records of the town, and shall not be granted in the absence of adequate payroll records.

6. Payment of buy backs of creditable service may be made one of the following ways:

- Lump sum payment
- Monthly payments with a minimum of \$100.00 per month. Weekly payments with a minimum on \$25.00 per week
- Payroll deductions are accepted.

This section is effective for all buyback payments started on or after January 1, 2005.

#### C. CALL FIREFIGHTERS AND RESERVE POLICE OFFICERS

1. The Board shall credit as full-time service not to exceed five years, that period of time during which a reserve or intermittent police officer or a reserve, permanent intermittent or call firefighter was on his/her respective list and was eligible for assignment to duty subsequent to his/her appointment. Such service as a reserve, permanent intermittent or call firefighter shall be credited only if later appointed as a permanent member of the Fire Department.

#### D. SCHOOL EMPLOYEES

1. Cafeteria workers and Teacher Aides/Paraprofessionals who are regularly employed working a full school year for a minimum of twenty hours a week and are permanent employees with a stated hourly or weekly rate of compensation must become members of the system. An exception is granted to Teacher Aides/Paraprofessionals hired prior to September 1985.

2. School employees who are continuously employed shall receive 12 months creditable service per calendar year. School employees who terminate/resign shall receive creditable service adjusted to the date of termination/resignation. A school employee who works on the last day of a school year and the first day of the following school year shall receive creditable service for the intervening months.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### E. VETERANS BUYBACKS

1. The buy back amount for eligible members pertaining to purchase of military time shall be paid within five years from the date of application. Payment may be made as provided in #B6.
2. If a dual service veteran requests a buy back under a provision of Massachusetts General Laws (MGL), and that veteran is a full-time employee within the Montague Retirement System (MRS) or has a majority of his /her hours within our system, the MRS will offer to have the buy back made to the MRS. If the veteran is a full-time employee within another retirement system which has accepted the necessary provisions of the MGL (or has a majority of his /her current hours in that system), the MRS will request that the buy back be made to the other system.

#### F. REPAYMENTS OF ERRONEOUS BENEFITS

1. The Board will allow repayment of erroneous benefits either by a lump sum payment or by monthly payments. If monthly payments are chosen, the repayment period may not exceed the length of time over which the erroneous payment was paid.

#### G. MISCELLANEOUS PROVISIONS

1. The Board will elect officers annually at the September meeting and within sixty (60) days of a Chairperson leaving the Board.
2. Employees of the Montague Retirement System are eligible for health and life insurance through the carriers offered by the town of Montague. Retirement employees are also eligible to participate in the employee-paid plans for dental, disability, additional life and similar policies offered by the Town of Montague. The Montague Retirement Board shall reimburse the employer's share of health and life insurance to the Town of Montague. The amount paid by the employee shall be included in and negotiated as part of the employment contract.
3. The Montague Retirement System will carry workers' compensation insurance for the board members and employees. In the absence of such a policy, the board will make direct payments for workers' compensation. Such payments will include lost wages and medical bills.
4. The Board shall calculate the monthly benefit for a retiree who dies prior to the last day of the month according to the following formula:  
Daily allowance (monthly allowance divided by the days in the month) multiplied by the days of life (including the day of death).
5. Board members who miss more than 3 meetings a year, for reasons other than personal or family illness, shall be requested to resign.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

January 1, 2006

4.7 If a personal motor vehicle is used for travel, the Board will allow reimbursement at the rate equal to the IRS mileage rate per mile traveled. All mileage incurred within each reimbursement shall be totaled and rounded to the nearest whole mile. The resulting dollar amount shall be rounded to the nearest whole penny.

July 26, 2006

6. Meals

- 6.1 The maximum reimbursement for individual meals shall be \$7 for breakfast, \$15 for lunch, and \$25 for dinner. The maximum reimbursement for any combination of meals shall be the combined maximums. **The Board may allow for reimbursement in excess of the allowable amount for travel to high-cost locations.**
- 6.2 Reimbursements for meals shall only be made if the meals were necessary as a result of the approved travel. The appropriate meals will be considered necessary if the approved travel results in the traveler being away from home and office during 5-8 AM, 11AM-2PM, and/or 5-8 PM.
- 6.3 Reimbursements for individuals other than Board Members or staff members of the Montague Retirement System is prohibited.
- 6.4 If lodging packages or registration fees for a conference or seminar include meals, reimbursement for additional meals is prohibited.
- 6.5 Meal gratuities shall be reimbursed to a maximum of 15% of the cost of the meal, excluding taxes and alcoholic beverages.

## 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: Carolyn Olsen

Appointed Member: Frank Abbondanzio                      Term Expires: 3/24/08

Elected Member: David Dion                                      Term Expires: 5/31/07

Elected Member: Leo Parent                                      Term Expires: 12/17/08

Appointed Member: Marianne Fiske                              Term Expires: 1/31/09

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

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of 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:	)	
Ex-officio Member:	)	\$50,000,000
Elected Member:	)	St. Paul Travelers, National Union Fire and Arch Insurance
Appointed Member:	)	
Staff Employee:	)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2006.

The actuarial liability for active members was	\$11,594,243
The actuarial liability for vested terminated members was	121,973
The actuarial liability for non-vested terminated members was	122,350
The actuarial liability for retired members was	<u>13,543,028</u>
The total actuarial liability was	25,381,594
System assets as of that date were	<u>19,737,297</u>
The unfunded actuarial liability was	<u>\$5,644,297</u>
The ratio of system's assets to total actuarial liability was	77.8%
As of that date the total covered employee payroll was	\$5,429,197

The normal cost for employees on that date was 8.18% of payroll  
 The normal cost for the employer was 6.18% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Varies by job, group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION  
 AS OF JANUARY 1, 2006

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)
1/1/2006	\$19,737,297	\$25,381,594	\$5,644,297	77.8%	\$5,429,197	104.0%
1/1/2004	\$15,395,866	\$22,435,613	\$7,039,747	68.6%	\$4,611,673	152.7%
1/1/2002	\$13,286,000	\$20,462,000	\$7,176,000	64.9%	\$5,007,000	143.3%
1/1/2000	\$13,933,317	\$18,247,478	\$4,314,161	76.4%	\$4,875,510	88.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 6 - MEMBERSHIP EXHIBIT**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Retirement in Past Years</b>										
Superannuation	5	1	1	3	8	1	5	10	0	2
Ordinary Disability	0	0	0	1	0	1	0	0	0	0
Accidental Disability	1	1	0	0	2	0	0	2	0	2
<b>Total Retirements</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>10</b>	<b>2</b>	<b>5</b>	<b>12</b>	<b>0</b>	<b>4</b>
Total Retirees, Beneficiaries and Survivors:										
Total Active Members	186	241	243	233	254	237	248	211	188	235
<b>Pension Payments</b>										
Superannuation	\$487,267	\$491,265	\$471,730	\$474,977	\$572,443	\$597,411	\$636,243	\$713,874	\$893,530	\$917,461
Survivor/Beneficiary Payments	32,751	36,800	40,182	41,382	42,252	59,677	54,664	50,657	47,335	51,049
Ordinary Disability	7,206	2,162	0	1,640	3,589	13,936	15,421	42	0	0
Accidental Disability	92,611	81,554	100,369	101,296	137,546	138,398	131,039	130,911	151,951	182,527
Other	<u>111,951</u>	<u>122,042</u>	<u>125,478</u>	<u>122,130</u>	<u>121,691</u>	<u>117,417</u>	<u>120,895</u>	<u>126,379</u>	<u>146,749</u>	<u>110,779</u>
<b>Total Payments for Year</b>	<b><u>\$731,786</u></b>	<b><u>\$733,823</u></b>	<b><u>\$737,759</u></b>	<b><u>\$741,425</u></b>	<b><u>\$877,521</u></b>	<b><u>\$926,839</u></b>	<b><u>\$958,262</u></b>	<b><u>\$1,021,863</u></b>	<b><u>\$1,239,565</u></b>	<b><u>\$1,261,816</u></b>

PERAC

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