

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Hampden County Regional  
Contributory Retirement System  
For the Three Year Period  
January 1, 1999 - December 31, 2001  
PERAC 01: 09-007-03**

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November 26, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Hampden County Regional** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2001**. 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 and 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 Robert Madison and Harry Chadwick 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

# Hampden County Regional Retirement System

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS

### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

1. Insurance Benefits:

A review of expenses approved by the Board indicates that the Attorney of Record's health insurance is included with Staff and Board Members. However, the attorney pays for 100% of his insurance premiums.

Recommendation:

Vendors cannot be part of the Hampden County Regional Retirement System's health plan.

***Board Response:***

The issues raised regarding the Board's legal counsel during the audited period are no longer an issue due to the death of the Board's attorney in May, 2003. In August, 2003 the Board hired new legal representation with the Hampden County Regional Retirement Board being their only public retirement client.

2. Conference Expenses:

A review of conference expenses approved by the Board indicated that the Board reimbursed the Board's Attorney of Record for \$600 over the three-year audit period for conference expenses (including MACRS conferences).

Recommendation:

Travel and conference expense reimbursements to the Board's Attorney, is generally not an appropriate use of retirement funds. The Hampden County Regional Retirement System should review its policy of reimbursing the Board's Attorney for travel, conferences, and lodging, and should specifically approve each occurrence by a Board vote and by recording the vote in the Board Minutes.

***Board Response:***

Same as in #1, above.

3. Travel Expenses:

Travel expenses were sampled to insure Board approved reimbursements were properly documented. In all but one case, proper documentation existed. In this one case a Board member was forced to cancel a NCPERS trip due to illness. The Board voted to reimburse the Board member for \$753 without airline expense documentation.

Recommendation:

The Board must require that all expenses be adequately documented.

## Hampden County Regional Retirement System

### EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

**Board Response:**

It was the Board's understanding that there was documentation for the expense in question and had requested copies of the documentation from the member. The Board will again request the documentation from the member to clarify this issue.

4. **Board Member Attendance.**

An elected Board member did not attend 38% of the Board meetings during the three-year audit period.

**Recommendation:**

Board members are expected to attend all scheduled Board meetings.

**Board Response:**

The Board members were diligent in their efforts to have all of the Board members attend the meetings.

5. **Membership Contributions:**

- a. Based on inspection and inquiry, it was determined that the Hampden County Regional Retirement Board lacks a uniform method of correctly reporting monthly membership payroll. The Hampden County Regional Retirement Board administers thirty-five (35) governmental units. 31 of the 35 units (91%) did not report "Other Earnings" which makes it impossible to determine if "Regular Earnings" is exclusive of earnings not subject to pension deductions such as Overtime or Police Detail pay.
- b. When the Treasurers of the 35 governmental units submit payroll data to the Hampden County Regional Retirement Board, they must certify, in writing, that the employee payroll data remitted to the retirement system is in accordance with the provisions of G.L. c. 32. PERAC auditors determined that the Treasurers in 3 of the 35 (9%) reporting units that make up the Hampden County Regional Retirement System are not certifying that the monthly employee payroll data is accurate and correct.
- c. PERAC auditors sampled 8% of contribution rates maintained within the Hampden County Regional Retirement System. The error rate for this sample was 25%. In each case membership contribution rates were based on date of service, rather than the date of membership into the public Retirement System. In some cases this error was discovered when the individuals requested retirement or requested buy back of creditable service. Waivers of repayment were requested according to G.L. c. 32 § 20(5)(c) at the time of retirement

## Hampden County Regional Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

##### Recommendations:

- a. Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32 § 22(1)(h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.
- b. When governmental unit Treasurers submit salary information to the Hampden County Regional Retirement System, they must certify, in writing, that employee payroll data is correct.
- c. The list of questionable contribution rates was generated by PERAC based on data maintained in the Hampden County's Data National Membership files. Hampden County Regional Retirement System must review this list of questionable membership rates in a timely manner and inform applicable members that contribution rates are based on date of membership in the Hampden County Regional Retirement System, not the date of hire into public service.

##### **Board Response:**

The Treasurer's representative to the Board has stated that if PERAC would produce a required format for a mandated monthly reporting form, then she and the other treasurers of the system could require that their computer software companies comply with the specified form. As it is, with 35 different units using various computer programs, it is understandable that the reports differ unit to unit. In addition, the 3 treasurers that were not certifying and signing the reports have been complying with this requirement since the beginning of 2003.

The contribution rate issue arises from the actuarial report that PERAC supplies every year. That report does not take into consideration that members have funds transferred from other systems, and that their retirement service extends over different contribution rate periods. The membership date would reflect the entry date into service with a member unit in Hampden County, but by law, the individual is able to carry their contribution rate with them if they leave one public employer and begin work with another public employer in Massachusetts without drawing their retirement contributions. Also, because we are a multi-unit system, we do have employees who work for a number of towns, but not all their start dates are the same in each town, this too would contribute to what would be seen as an incorrect contribution rate. The staff is currently working with the most recent report from PERAC to insure all members are contributing the correct retirement percentage.

##### 6. Appropriations.

A review of the appropriation payments paid to the system revealed that payments made by some governmental units are not occurring on a timely basis. Payments to a regional retirement system are to be made in accordance with G.L. c.32, §22D and PERAC regulation 840 CMR 25.26(5). These payments are due on July 1 and January 1, respectively.

## Hampden County Regional Retirement System

### EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

Most of the units made the required payments by the end of the month when they should have. However, there were, and still are, several units that from time to time are late with payments and no accrued interest is assessed. In summary [all interest is compounded to 2002 dollars], in 1999, approximately \$37,615 in interest is due from five member units and in 2000, approximately \$14,674 in interest is due from five member units.

#### Recommendation:

G.L. c.32, §22D and PERAC regulation 840 CMR 25.26(5) require that the pension appropriation payments must be paid when they are due. The governmental units not making timely payments should be identified. A policy to ensure timely collection of all appropriations should be implemented.

#### Board Response:

With regard to the appropriation payments, the staff sends out the bills requesting payment at least 6 weeks in advance of the respective due dates. As you indicated, most of the units pay by the end of the month, and for the ½ year amount due July 1, 2003, all payments were received by July 23, 2003. We have been informed by a number of our treasurers that their respective accountants will not allow them to pay new fiscal year expenses until all expenses for the prior year have been paid. This system keeps a list with each unit's name, amount billed, and the date of payment as a permanent record. Given the financial strains placed upon all the cities and towns in the Commonwealth, billing and expecting to receive from our member units the interest that has accrued on the few late payments that occur would require budgetary authority by the approving bodies in the respective units.

#### Final Determination:

*PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken on all findings.*

## Hampden County Regional Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Cash	\$7,363,612	\$6,014,458	\$4,762,859
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	28,587,534	31,314,939	30,104,211
Equities	42,129,027	42,121,275	48,437,307
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	40,523,840	46,479,510	43,224,537
Pooled International Equity Funds	13,161,900	15,132,536	14,927,726
Pooled Global Fixed Income Funds	28,056,012	27,979,779	25,326,841
Pooled Alternative Investment Funds	2,346,560	0	0
Pooled Real Estate Funds	5,842,601	6,249,916	5,808,061
Interest Due and Accrued	291,821	338,978	438,685
Accounts Receivable	419,898	353,969	544,681
Accounts Payable	0	0	0
<b>TOTAL</b>	<b><u>\$168,722,805</u></b>	<b><u>\$175,985,360</u></b>	<b><u>\$173,574,907</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$47,613,104	\$44,592,454	\$41,461,898
Annuity Reserve Fund	15,424,712	14,961,360	14,881,045
Pension Fund	7,389	2,646	2,593
Military Service Fund	11,532,453	15,823,483	20,321,701
Expense Fund	0	0	0
Pension Reserve Fund	94,145,148	100,605,417	96,907,669
<b>TOTAL</b>	<b><u>\$168,722,805</u></b>	<b><u>\$175,985,360</u></b>	<b><u>\$173,574,907</u></b>



## Hampden County Regional Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
<b>Beginning Balance (1998)</b>	\$38,867,079	\$14,209,435	\$23,601,305	\$2,123	\$0	\$76,123,539	<b>\$152,803,481</b>
Receipts	5,551,646	429,085	9,219,258	47	1,133,668	20,780,119	<b>37,113,823</b>
Interfund Transfers	(2,033,373)	2,031,073	(2,134)	423	0	4,011	<b>0</b>
Disbursements	(923,454)	(1,788,547)	(12,496,727)	<u>0</u>	(1,133,668)	<u>0</u>	<b>(16,342,397)</b>
<b>Ending Balance (1999)</b>	<b>41,461,898</b>	<b>14,881,045</b>	<b>20,321,701</b>	<b>2,593</b>	<b>0</b>	<b>96,907,669</b>	<b>173,574,907</b>
Receipts	5,909,987	447,581	8,874,304	53	1,216,145	3,694,706	<b>20,142,776</b>
Interfund Transfers	(1,547,302)	1,545,683	(1,422)			3,041	<b>(0)</b>
Disbursements	(1,232,129)	(1,912,949)	(13,371,101)	<u>0</u>	(1,216,145)	<u>0</u>	<b>(17,732,323)</b>
<b>Ending Balance (2000)</b>	<b>44,592,454</b>	<b>14,961,360</b>	<b>15,823,483</b>	<b>2,646</b>	<b>0</b>	<b>100,605,417</b>	<b>175,985,360</b>
Receipts	6,447,990	449,227	8,929,358	37	1,423,839	(6,463,836)	<b>10,786,615</b>
Interfund Transfers	(2,020,336)	2,022,596	(10,534)	4,706	0	3,568	<b>0</b>
Disbursements	(1,407,005)	(2,008,471)	(13,209,855)	<u>0</u>	(1,423,839)	<u>0</u>	<b>(18,049,170)</b>
<b>Ending Balance (2001)</b>	<b><u>\$47,613,104</u></b>	<b><u>\$15,424,712</u></b>	<b><u>\$11,532,453</u></b>	<b><u>\$7,389</u></b>	<b><u>\$0</u></b>	<b><u>\$94,145,148</u></b>	<b><u>\$168,722,805</u></b>

# Hampden County Regional Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$5,268,708	\$4,805,927	\$4,471,073
Transfers from other Systems	265,525	202,303	176,393
Member Make Up Payments and Redeposits	100,084	70,779	84,814
Investment Income Credited to Member Accounts	<u>813,672</u>	<u>830,978</u>	<u>819,367</u>
<b>Sub Total</b>	<b><u>6,447,990</u></b>	<b><u>5,909,987</u></b>	<b><u>5,551,646</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>449,227</u>	<u>447,581</u>	<u>429,085</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	269,496	259,870	251,174
Received from Commonwealth for COLA and Survivor Benefits	967,883	1,150,528	1,440,650
Pension Fund Appropriation	<u>7,691,979</u>	<u>7,463,907</u>	<u>7,527,435</u>
<b>Sub Total</b>	<b><u>8,929,358</u></b>	<b><u>8,874,304</u></b>	<b><u>9,219,258</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>37</u>	<u>53</u>	<u>47</u>
<b>Sub Total</b>	<b><u>37</u></b>	<b><u>53</u></b>	<b><u>47</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,423,839</u>	<u>1,216,145</u>	<u>1,133,668</u>
<b>Sub Total</b>	<b><u>1,423,839</u></b>	<b><u>1,216,145</u></b>	<b><u>1,133,668</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	36,798	38,485	36,851
Pension Reserve Appropriation	173,986	17,159	14,066
Interest Not Refunded	16,356	14,132	18,636
Excess Investment Income	<u>(6,690,975)</u>	<u>3,624,931</u>	<u>20,710,566</u>
<b>Sub Total</b>	<b><u>(6,463,836)</u></b>	<b><u>3,694,706</u></b>	<b><u>20,780,119</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$10,786,614</u></b>	<b><u>\$20,142,776</u></b>	<b><u>\$37,113,823</u></b>

# Hampden County Regional Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$696,614	\$658,540	\$712,589
Transfers to other Systems	<u>710,391</u>	<u>573,589</u>	<u>210,865</u>
<b>Sub Total</b>	<b><u>1,407,005</u></b>	<b><u>1,232,129</u></b>	<b><u>923,454</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,907,959	1,824,664	1,718,124
Option B Refunds	<u>100,512</u>	<u>88,285</u>	<u>70,424</u>
<b>Sub Total</b>	<b><u>2,008,471</u></b>	<b><u>1,912,949</u></b>	<b><u>1,788,547</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	9,244,607	8,786,162	8,148,501
Survivorship Payments	741,041	660,699	656,658
Ordinary Disability Payments	291,615	295,707	268,801
Accidental Disability Payments	2,070,011	1,984,835	1,845,736
Accidental Death Payments	516,397	532,271	503,194
Section 101 Benefits	48,973	40,984	38,292
3 (8) (c) Reimbursements to Other Systems	297,211	1,070,442	1,035,546
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>13,209,854</u></b>	<b><u>13,371,101</u></b>	<b><u>12,496,727</u></b>
<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	27,000	25,909	13,003
Salaries	205,647	199,165	177,053
Legal Expenses	57,200	44,530	46,387
Medical Expenses	68	38	49
Travel Expenses	6,122	3,550	2,962
Administrative Expenses	92,551	111,737	109,118
Furniture and Equipment	6,593	19,682	0
Management Fees	954,382	739,186	715,659
Custodial Fees	26,526	28,849	25,937
Consultant Fees	<u>47,750</u>	<u>43,500</u>	<u>43,500</u>
<b>Sub Total</b>	<b><u>1,423,838</u></b>	<b><u>1,216,145</u></b>	<b><u>1,133,668</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$18,049,169</u></b>	<b><u>\$17,732,323</u></b>	<b><u>\$16,342,397</u></b>

# Hampden County Regional Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
<b>Investment Income Received From:</b>			
Cash	\$262,881	\$250,761	\$199,735
Short Term Investments	0	0	0
Fixed Income	2,309,111	2,528,671	2,182,263
Equities	517,839	474,062	511,465
Pooled or Mutual Funds	3,391,010	3,501,416	3,043,676
Commission Recapture	<u>15,185</u>	<u>13,683</u>	<u>14,264</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>6,496,025</u></b>	<b><u>6,768,593</u></b>	<b><u>5,951,403</u></b>
<b>Plus:</b>			
Increase in Amortization of Fixed Income Securities	0	0	197,924
Realized Gains	4,899,297	9,994,003	11,317,996
Unrealized Gains	16,404,873	22,154,160	24,707,608
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>291,821</u>	<u>338,978</u>	<u>438,685</u>
<b>Sub Total</b>	<b><u>21,595,990</u></b>	<b><u>32,487,141</u></b>	<b><u>36,662,213</u></b>
<b>Less:</b>			
Decrease in Amortization of Fixed Income Securities	0	0	(1,182,735)
Paid Accrued Interest on Fixed Income Securities	(340,711)	(290,987)	(294,011)
Realized Loss	(5,781,214)	(7,264,747)	(4,908,739)
Unrealized Loss	(25,635,455)	(25,141,629)	(12,796,956)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(338,978)</u>	<u>(438,685)</u>	<u>(338,443)</u>
<b>Sub Total</b>	<b><u>(32,096,358)</u></b>	<b><u>(33,136,047)</u></b>	<b><u>(19,520,884)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>(4,004,343)</u></b>	<b><u>6,119,687</u></b>	<b><u>23,092,732</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	813,672	830,978	819,367
Annuity Reserve Fund	449,083	447,581	429,084
Military Service Fund	1,423,839	1,216,145	1,133,668
Expense Fund	<u>37</u>	<u>53</u>	<u>47</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>2,686,632</u></b>	<b><u>2,494,757</u></b>	<b><u>2,382,166</u></b>
Net Investment Income	<u>(4,004,343)</u>	<u>6,119,687</u>	<u>23,092,732</u>
Less: Total Income Required	<u>2,686,632</u>	<u>2,494,757</u>	<u>2,382,166</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>(\$6,690,975)</u></b>	<b><u>\$3,624,931</u></b>	<b><u>\$20,710,566</u></b>

## Hampden County Regional Retirement System

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$7,363,612	\$7,363,612	4.38%
Short Term	\$0	\$0	0.00%
Fixed Income	\$28,587,534	\$28,587,534	17.02%
Equities	\$42,129,027	\$42,129,027	25.08%
Pooled Short Term Funds	\$0	\$0	0.00%
Pooled Domestic Equity Funds	\$40,523,840	\$40,523,840	24.12%
Pooled International Equity Funds	\$13,161,900	\$13,161,900	7.83%
Pooled Global Equity Funds	\$0	\$0	0.00%
Pooled Domestic Fixed Income Funds	\$0	\$0	0.00%
Pooled International Fixed Income Funds	\$0	\$0	0.00%
Pooled Global Fixed Income Funds	\$28,056,012	\$28,056,012	16.70%
Pooled Alternative Investment Funds	\$2,346,560	\$2,346,560	1.40%
Pooled Real Estate Funds	\$5,842,601	\$5,842,601	3.48%
Pooled Domestic Balanced Funds	\$0	\$0	0.00%
Pooled International Balanced Funds	\$0	\$0	0.00%
PRIT Cash Fund	\$0	\$0	0.00%
PRIT Core Fund	\$0	\$0	0.00%
<b>GRAND TOTALS</b>	<b><u>\$168,011,086</u></b>	<b><u>\$168,011,086</u></b>	<b><u>100.00%</u></b>

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, 2001, the rate of return for the investments of the **Hampden County Regional Retirement System** was -1.96%. For the five year period ending December 31, 2001, the rate of return for the investments of the **Hampden County Regional Retirement System** averaged 10.82%. For the sixteen-year period ending December 31, 2001, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Hampden County Regional Retirement System** was 11.06%.

# **Hampden County Regional Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

The **Hampden County Regional** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

May 15, 2000

In accordance with PERAC memo # 44/1999, all self imposed investment restrictions regulating the Board's percentage holdings in specific asset classes have been rescinded.

# Hampden County Regional Retirement System

## NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Hampden County Regional 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.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

# Hampden County Regional Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### 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 Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, 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.



## Hampden County Regional Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

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.

# Hampden County Regional Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Hampden County Regional** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

#### **I. MINIMUM EARNINGS REQUIRED FOR MEMBERSHIP**

All employees including elected or appointed officials must earn more than **two hundred dollars** in a calendar year for at least one year in order to be eligible for membership in the retirement system. Once this requirement is met, the individual remains a member of the retirement system even if he or she earns less than **two hundred dollars** in a calendar year thereafter.

#### **II. REQUIREMENTS FOR MEMBERSHIP**

- A. A permanent full-time employee of any member unit of the Hampden County Retirement System shall become a member of the Hampden County Retirement System on the first day of employment.
- B. A part-time permanent employee who normally works more than twenty hours per week shall become a member of the Hampden County Retirement System on the first day of employment.
- C. A seasonal employee who normally works more than twenty hours per week for five months or more in a year shall become a member of the Hampden County Retirement System on the first day of employment.
- D. Part-time employees whose normal work week is twenty hours or less and seasonal employees whose normal work week is less than twenty hours or who are employed less than five months in a year, temporary or provisional employees shall not become members of the Hampden County Retirement System until they meet one of the requirements set out in Regulation II. A, B or C above.
- E. Elected officials shall continue to have the option of joining the Hampden County Retirement System in accordance with General Laws Chapter 32 section 3 (2) (a) (vi) provided the official meets the requirements of Regulation I above.

#### **III. CREDITABLE SERVICE FOR LESS THAN PERMANENT FULL-TIME EMPLOYEMENT**

- A. All employees who are members of the Hampden County Retirement System who are full time permanent, part time, temporary, provisional or seasonal employees shall receive full creditable service for service rendered during his or her period of membership in the retirement system or for any period of creditable service purchased as prior service pursuant to regulation IV.

#### **IV. BUY BACK OF CREDITABLE SERVICE**

- A. For any employee who is not a member of the Hampden County Retirement System on the first day of employment, that employee shall be allowed to buy back their service with a member unit as a non-member regardless if the employee made contributions to social security. However, an employee who is a member of the Hampden County Retirement System shall not be eligible to buy-back service credit for

# Hampden County Regional Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

service rendered as a non-member if the employee did not earn at least **one thousand five hundred dollars** in a calendar year for the year the buy back is being requested.

#### **V. CREDITABLE SERVICE FOR CALL FIREFIGHTERS AND PERMANENT INTERMITTENT OR RESERVE POLICE OFFICERS**

A. The Board shall credit as full-time service not to exceed a maximum of five years that period of time during which a reserve or permanent-intermittent police officer or a reserve, permanent-intermittent or call firefighter was on his respective list and was eligible for assignment of duty subsequent to his appointment, and provided that such service as a reserve or permanent-intermittent police officer or call firefighter was later appointed as a permanent member of the fire department or police department.

B. Creditable service for a call firefighter or reserve or permanent-intermittent police officer shall be credited with one year of full creditable service for every two full years of service as a reserve or permanent-intermittent police officer or call firefighter, as consistent in Section 4 (2)(b) of Chapter 32.

C. A call firefighter who is elected in a manner prescribed by the General Laws shall be credited with one year of creditable service for each year as an elected firefighter.

#### **VI. HAMPDEN COUNTY REGIONAL REGULATION APPROVED 09-25-00**

The board authorizes, after approval of an application for disability retirement by the Retirement Board at a formal meeting, the Executive Director or in his absence the Assistant Director to sign the PERAC transmittal form regarding that disability.

Hampden County approved in part and disapproved in part 05/05/00 approved in part and not approved in part. The following rule is approved as follows:

##### Public Officials Regulation

A person appointed by the Mayor, Board of Selectmen, Town Council or Retirement Board, to serve as a member of a public Board or Commission or as public official in a member unit of the Hampden County Regional Retirement System including but not limited to member of the Retirement Board, Planning Board, Board of Public Health, Town Counsel, Assessor, Legal Counsel, Police Chief or Fire Chief, shall be entitled to membership in the Hampden County Regional Retirement System provided that the person earns at least two hundred dollars in a calendar year, and regardless of whether the person is employed more than twenty hours per week.

Credit for such service shall be calculated by using a fraction in which the denominator is 1000 and the numerator is the actual hours employed in a calendar year by the person. If the numerator equals or exceeds the denominator then the person shall be entitled to one year of creditable service per calendar year of actual service. If the numerator is less than the denominator then that fraction shall be multiplied by 12 to determine the number of full months of the creditable service the person is entitled to.

If the person receives a stipend or annual payment or compensation without a requirement of hours to be worked, then creditable service shall be determined by using a fraction in which the denominator is 2400 and the numerator is the amount of stipend paid or compensation received by the person in a calendar

## Hampden County Regional Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

year. If the numerator equals or exceeds the denominator then the person shall be entitled to six months of creditable service per calendar year of actual service. If the numerator is less than the denominator then that fraction shall be multiplied by 183 to determine the number of days of the creditable service the person is entitled to.

#### **VII. TRAVEL REGULATIONS APPROVED ON 10/18/02.**

Travel regulations approved by PERAC are on file.

**This regulation established rules for membership of less than full time, appointed officials and is consistent with the provisions of G.L. c. 32.**

The following rule is not approved for the reasons stated below.

The person so appointed must elect to join the Hampden County Regional Retirement System within ninety days of the date of appointment.

Employees who are eligible for membership in the retirement system based on supplemental regulations of the system are required to become members. Only elected officials, pursuant to G.L. c. 32, § 3(2)(vi), are allowed to chose whether to apply for membership in the retirement system. Since the above-quoted proposed regulation conflicts with the provisions of G.L. c. 32, it cannot be approved.

# Hampden County Regional Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

#### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chairman/Treasurer 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:	Richard M. Theroux		12/31/08
Elected Member:	Karl J. Schmaelzle	Term Expires:	01/01/06
Elected Member:	Patricia C. Donovan	Term Expires:	01/01/05
Appointed Member:	Laurel A. Placzek	Term Expires:	01/01/04
Appointed Member:	Patrick E. O'Neil	Term Expires:	12/02/04

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:	)	\$30,000,000
Elected Member:	)	Travelers
Appointed Member:	)	
Staff Employee:	)	

## Hampden County Regional Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PriceWaterhouseCoopers** as of **January 1, 2001**.

The actuarial liability for active members was	\$ 122,235,916
The actuarial liability for vested terminated members was	<u>118,844,569</u>
The total actuarial liability was	<b>241,080,485</b>
System assets as of that date were	<u>175,985,360</u>
The unfunded actuarial liability was	<b><u>65,095,125</u></b>
The ratio of system's assets to total actuarial liability was	73.0%
As of that date the total covered employee payroll was	\$ 65,470,839

The normal cost for employees on that date was 7.20% of payroll

The normal cost for the employer was 6.60% of payroll

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

**Investment Return:** 8.50% per annum

**Rate of Salary Increase:** 5.50% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

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 )
01/01/01	\$ 175,985,360	\$ 241,080,485	\$ 65,095,125	73.0%	\$65,470,839	99.4%
01/01/99	\$ 153,484,932	\$ 207,750,431	\$ 54,265,499	73.9%	\$54,386,183	99.8%
01/01/98	\$ 146,526,758	\$ 231,296,126	\$ 84,769,368	63.4%	\$85,083,873	99.6%
01/01/96	\$ 105,376,986	\$ 178,574,265	\$ 73,197,279	59.0%	\$74,463,957	98.3%

## Hampden County Regional Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	50	76	52	56	47	48	59	56	43	54
Ordinary Disability	0	0	3	0	2	1	4	1	1	1
Accidental Disability	6	5	9	6	4	6	5	5	4	5
<b>Total Retirements</b>	<b>56</b>	<b>81</b>	<b>64</b>	<b>62</b>	<b>53</b>	<b>55</b>	<b>68</b>	<b>62</b>	<b>48</b>	<b>60</b>
Total Retirees, Beneficiaries and Survivors	1,275	1,329	1,352	1,360	1,374	1,390	1,412	1,423	1,426	1,418
Total Active Members	2,899	3,019	3,108	3,156	3,162	3,246	2,403	2,436	2,557	2,600
<b>Pension Payments</b>										
Superannuation	\$5,514,160	\$5,853,551	\$6,413,238	\$6,732,376	\$6,918,280	\$7,466,929	\$7,612,885	\$8,148,501	\$8,786,162	\$9,244,607
Survivor/Beneficiary Payments	598,206	594,032	607,994	638,865	638,783	667,619	655,725	656,658	660,699	741,041
Ordinary Disability	201,404	203,602	230,504	214,677	218,442	213,022	242,209	268,801	295,707	291,615
Accidental Disability	1,005,017	1,090,798	1,225,559	1,435,685	1,549,960	1,621,095	1,738,780	1,845,736	1,984,835	2,070,011
Other	968,545	1,031,098	1,148,049	1,158,142	1,439,010	1,377,875	1,610,278	564,370	573,255	541,486
<b>Total Payments for Year</b>	<b>\$8,287,332</b>	<b>\$8,773,081</b>	<b>\$9,625,344</b>	<b>\$10,179,745</b>	<b>\$10,764,475</b>	<b>\$11,346,540</b>	<b>\$11,859,877</b>	<b>\$11,484,066</b>	<b>\$12,300,658</b>	<b>\$12,888,760</b>