

# PERAC AUDIT REPORT



Wellesley Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2005



## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations .....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances .....	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income .....	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations .....	10
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions .....	13
Note 2 - Significant Accounting Policies .....	20
Note 3 - Supplementary Membership Regulations.....	21
Note 4 - Administration of the System .....	22
Note 5 - Actuarial Valuation and Assumptions.....	23
Note 6 - Membership Exhibit.....	24

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

January 4, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Wellesley Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 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.

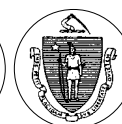
In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Martin J. Feeney 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. Annual Statements:**

Our inspection of the Annual Statements filed by the Board for the four-year audit period determined that certain line item amounts did not agree with the instructions provided with the PERAC Annual Statement Guide published each year. The 2005 Annual Statement reported a negative balance of interest due and accrued. This account is normally restricted to interest earned but not yet received. The negative value indicated we actually owed interest to others. The Annual Statement is in agreement with the general ledger. The financial report of the Independent Auditor on the calendar year end 2005 disclosed the fair value of Investments previously reported on the 2005 Annual Statement filed with PERAC was reduced.

PERAC requires an annual statement be filed per G.L. c. 32 § 20 (g) that summarizes the calendar year activities and operations of each of the 106 retirement systems under their jurisdiction. G. L. c. 32 § 23 (1) states that each board shall submit annually on or before May 1<sup>st</sup> a sworn statement of the financial condition as of December 31<sup>st</sup> of the previous year. The 2004 Annual Statement was required to be filed with PERAC by May 1, 2005. It was received at our offices on July 15, 2005. The 2005 Annual Statement was required to be filed with PERAC by May 1, 2006. It was received at our offices on August 6, 2006. No request for an extension of the filing deadline was noted in our files.

**Recommendation:** As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement, allowing readers to make an accurate assessment of the System's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian provided schedules should be corrected, as necessary, and reconciled to the general ledger prior to submission of the Annual Statement.

PERAC has routinely granted extensions for valid and reasonable circumstances that result in filing delays. The requests must be in writing in letter form addressed to the Executive Director. Systems that do not follow this protocol are considered deficient in their reporting responsibilities. This is a technical violation of G.L. c. 32 § 20 (g) as well as G. L. c. 32 § 23 (1).

## **Board Response:**

Regarding a negative interest due and accrued:

Our custodian bank reported a negative balance of interest due and accrued and therefore we posted the same to our general ledger. We have advised our custodian that PERAC does not approve of the negative amount and in the future to post it as an account payable.

Timely filing of annual statement:

The board will take such steps as necessary to ensure timely compliance.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **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	2002
<b>Net Assets Available For Benefits:</b>				
Cash	\$834,286	\$0	\$52,357	\$178,916
Short Term Investments	0	932,471	143,668	7,577,424
Fixed Income Securities	24,681,815	22,621,224	24,281,672	32,185,912
Equities	49,870,773	44,857,725	38,589,944	27,988,898
Pooled Domestic Equity Funds	32,517,708	33,849,515	31,645,071	23,268,647
Pooled International Equity Funds	23,007,165	18,821,985	16,211,525	11,350,212
Pooled Domestic Fixed Income Funds	1,097,887	1,058,416	2,397,811	0
Pooled International Fixed Income Funds	0	6,221,491	3,273,160	1,721,450
Pooled Real Estate Funds	226,612	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	283,362	105,707	6,661	1,040
Interest Due and Accrued	169,207	136,908	247,908	350,501
Accounts Receivable	2,458,717	1,313,695	619,450	921,258
Less: Accounts Payable	<u>(8,136,042)</u>	<u>(5,352,010)</u>	<u>(676,862)</u>	<u>(5,922,889)</u>
<b>Total</b>	<u>\$127,011,492</u>	<u>\$124,567,127</u>	<u>\$116,792,365</u>	<u>\$99,621,369</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$20,761,405	\$19,290,165	\$17,949,059	\$16,646,399
Annuity Reserve Fund	7,857,228	8,211,474	8,330,926	8,463,433
Pension Fund	8,713,586	15,354,233	21,951,675	28,219,855
Military Service Fund	6,563	6,524	6,485	6,421
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>89,672,710</u>	<u>81,704,731</u>	<u>68,554,220</u>	<u>46,285,261</u>
<b>Total</b>	<u>\$127,011,492</u>	<u>\$124,567,127</u>	<u>\$116,792,365</u>	<u>\$99,621,369</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 ( 2002)	\$17,132,070	\$6,738,843	\$28,020,431	\$11,671	\$0	\$63,822,932	\$115,725,947
Receipts	2,564,596	210,399	612,996	151	585,531	(12,412,853)	(8,439,180)
Inter Fund Transfers	(2,444,224)	2,451,349	5,123,094	(5,401)	0	(5,124,818)	0
Disbursements	(606,042)	(937,158)	(5,536,667)	0	(585,531)	0	(7,665,398)
Ending Balance (2002)	16,646,400	8,463,433	28,219,854	6,421	0	46,285,261	99,621,369
Receipts	2,418,889	248,293	55,845	64	475,736	22,268,959	25,467,786
Inter Fund Transfers	(641,136)	641,136	0	0	0	0	0
Disbursements	(475,093)	(1,021,937)	(6,324,026)	0	(475,736)	0	(8,296,791)
Ending Balance (2003)	17,949,060	8,330,925	21,951,674	6,485	0	68,554,220	116,792,364
Receipts	2,510,173	245,252	144,200	39	640,849	13,150,511	16,691,024
Inter Fund Transfers	(703,053)	703,053	0	0	0	0	0
Disbursements	(466,014)	(1,067,757)	(6,741,642)	0	(640,849)	0	(8,916,262)
Ending Balance (2004)	19,290,166	8,211,473	15,354,232	6,524	0	81,704,731	124,567,126
Receipts	2,741,584	235,040	236,426	39	752,776	7,955,007	11,920,871
Inter Fund Transfers	(545,642)	530,412	2,257	0	0	12,973	0
Disbursements	(724,702)	(1,119,698)	(6,879,329)	0	(752,776)	0	(9,476,505)
Ending Balance (2005)	<u>\$20,761,406</u>	<u>\$7,857,227</u>	<u>\$8,713,585</u>	<u>\$6,563</u>	<u>\$0</u>	<u>\$89,672,710</u>	<u>\$127,011,492</u>

## STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2005	2004	2003	2002
<b>Annuity Savings Fund:</b>				
Members Deductions	\$2,228,917	\$2,108,771	\$2,034,773	\$1,944,335
Transfers from Other Systems	300,872	166,938	173,829	219,930
Member Make Up Payments and Re-deposits	69,784	71,860	46,527	177,581
Member Payments from Rollovers	30,768	58,614	1,591	0
Investment Income Credited to Member Accounts	<u>111,244</u>	<u>103,991</u>	<u>162,169</u>	<u>222,750</u>
Sub Total	<u>2,741,584</u>	<u>2,510,173</u>	<u>2,418,889</u>	<u>2,564,596</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>235,040</u>	<u>245,252</u>	<u>248,293</u>	<u>210,399</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	126,217	144,200	55,845	64,481
Pension Fund Appropriation	110,209	0	0	548,515
	0	0	0	0
Sub Total	<u>236,426</u>	<u>144,200</u>	<u>55,845</u>	<u>612,996</u>
<b>Military Service Fund:</b>				
Investment Income Credited to the Military Service Fund	<u>39</u>	<u>39</u>	<u>64</u>	<u>151</u>
Sub Total	<u>39</u>	<u>39</u>	<u>64</u>	<u>151</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>752,776</u>	<u>640,849</u>	<u>475,736</u>	<u>585,531</u>
Sub Total	<u>752,776</u>	<u>640,849</u>	<u>475,736</u>	<u>585,531</u>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	36,251	45,743	33,946	33,850
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	6,769	3,744	4,447	7,952
Miscellaneous Income	1,756	11,739	0	0
Excess Investment Income	<u>7,910,230</u>	<u>13,089,285</u>	<u>22,230,566</u>	<u>(12,454,655)</u>
Sub Total	<u>7,955,007</u>	<u>13,150,511</u>	<u>22,268,959</u>	<u>(12,412,853)</u>
<b>Total Receipts</b>	<u>\$11,920,871</u>	<u>\$16,691,024</u>	<u>\$25,467,786</u>	<u>(\$8,439,180)</u>



## STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2005	2004	2003	2002
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$254,276	\$266,453	\$241,974	\$290,368
Transfers to Other Systems	<u>470,426</u>	<u>199,560</u>	<u>233,120</u>	<u>315,674</u>
Sub Total	<u>724,702</u>	<u>466,014</u>	<u>475,093</u>	<u>606,042</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	1,111,765	1,067,757	1,014,707	892,080
Option B Refunds	<u>7,933</u>	<u>0</u>	<u>7,229</u>	<u>45,078</u>
Sub Total	<u>1,119,698</u>	<u>1,067,757</u>	<u>1,021,937</u>	<u>937,158</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	5,313,897	5,207,103	5,041,682	4,374,337
Survivorship Payments	462,252	483,546	357,253	312,892
Ordinary Disability Payments	29,834	28,564	24,600	14,201
Accidental Disability Payments	710,226	666,555	547,534	530,354
Accidental Death Payments	165,366	166,697	163,457	188,007
Section 101 Benefits	42,918	38,465	33,230	0
3 (8) (c) Reimbursements to Other Systems	154,836	150,713	156,270	116,876
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,879,329</u>	<u>6,741,642</u>	<u>6,324,026</u>	<u>5,536,667</u>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	0	0	0	0
Salaries	81,626	68,630	69,315	62,619
Legal Expenses	0	0	0	0
Medical Expenses	0	22	0	0
Travel Expenses	1,953	519	405	1,391
Administrative Expenses	9,470	5,443	6,650	23,713
Furniture and Equipment	522	1,208	1,732	0
Management Fees	466,368	367,981	187,122	331,022
Custodial Fees	84,554	89,674	54,283	74,794
Consultant Fees	101,404	91,068	147,309	91,992
Service Contracts	6,383	16,305	8,919	0
Fiduciary Insurance	<u>496</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>752,776</u>	<u>640,849</u>	<u>475,736</u>	<u>585,531</u>
<b>Total Disbursements</b>	<u>\$9,476,505</u>	<u>\$8,916,262</u>	<u>\$8,296,791</u>	<u>\$7,665,398</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003	2002
<b>Investment Income Received From:</b>				
Cash	\$619	\$295	\$876	\$3,640
Short Term Investments	14,680	4,880	39,535	38,851
Fixed Income	1,576,288	1,680,962	2,014,533	3,342,358
Equities	686,844	619,057	541,614	545,569
Pooled or Mutual Funds	215,753	389,975	421,327	259,238
Commission Recapture	0	0	0	0
<b>Total Investment Income</b>	<u>2,494,185</u>	<u>2,695,168</u>	<u>3,017,886</u>	<u>4,189,656</u>
<b>Plus:</b>				
Realized Gains	2,281,052	2,034,935	3,180,094	2,922,179
Unrealized Gains	10,923,496	13,050,039	21,086,471	3,720,360
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>169,207</u>	<u>136,908</u>	<u>247,908</u>	<u>350,500</u>
Sub Total	<u>13,373,755</u>	<u>15,221,882</u>	<u>24,514,473</u>	<u>6,993,039</u>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	(579,255)	(411,695)	(612,715)	(939,921)
Realized Loss	(2,724,677)	(2,095,170)	(1,823,986)	(10,890,588)
Unrealized Loss	(3,417,772)	(1,082,861)	(1,628,330)	(10,155,588)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(136,908)</u>	<u>(247,908)</u>	<u>(350,500)</u>	<u>(632,421)</u>
Sub Total	<u>(6,858,611)</u>	<u>(3,837,634)</u>	<u>(4,415,531)</u>	<u>(22,618,518)</u>
<b>Net Investment Income</b>	<u>9,009,329</u>	<u>14,079,415</u>	<u>23,116,828</u>	<u>(11,435,823)</u>
<b>Income Required:</b>				
Annuity Savings Fund	111,244	103,991	162,169	222,750
Annuity Reserve Fund	235,040	245,252	248,293	210,399
Military Service Fund	752,776	640,849	475,736	151
Expense Fund	39	39	64	585,531
<b>Total Income Required</b>	<u>1,099,099</u>	<u>990,131</u>	<u>886,262</u>	<u>1,018,831</u>
Net Investment Income	<u>9,009,329</u>	<u>14,079,415</u>	<u>23,116,828</u>	<u>(11,435,823)</u>
Less: Total Income Required	<u>1,099,099</u>	<u>990,131</u>	<u>886,262</u>	<u>1,018,831</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$7,910,230</u>	<u>\$13,089,285</u>	<u>\$22,230,566</u>	<u>(\$12,454,654)</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$834,286	0.6%	100%
Short Term	0	0.0%	100%
Fixed Income	25,411,580	19.1%	25-80%
Equities	49,870,773	37.4%	75%
Pooled Domestic Equity Funds	32,517,708	24.4%	75%
Pooled International Equity Funds	23,007,165	17.3%	15%
Pooled Domestic Fixed Income Funds	1,097,887	0.8%	25-80%
Pooled Real Estate Funds	226,612	0.2%	5%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	<u>283,362</u>	<u>0.2%</u>	100%
<b>Grand Total</b>	<b><u>\$133,249,374</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Wellesley Retirement System was 9.98%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Wellesley Retirement System averaged 6.03%. 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 Wellesley Retirement System was 12.05%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Wellesley Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

July 30, 2003

- 16.08 In accordance with PERAC Investment Guideline 99-2, the Wellesley Retirement Board is authorized to make a modest modification to its fixed income mandate with Standish Mellon Asset Management. In two segments of the market in which Standish Mellon is allowed to invest opportunistically, the manager will now use its institutional mutual funds rather than purchase individual securities. These two funds are the Standish Opportunistic Emerging Markets Debt Fund and the Standish Opportunistic High Yield Fund. The account has target maximums of 2 1/2% and 9% of total fixed income assets, respectively, to emerging market and high yield debt. This is a change in structure that involves no change in mandate or benchmark but simply allows the board to achieve its program in a more diversified and efficient manner.

August 13, 1997

- 20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond-rating services. However, 10% of the total portfolio may be invested in bonds with a minimum quality rating of BB or equivalent as rated by one or more recognized bond-rating services.
- 20.06(4) Fixed income holdings, which are downgraded by one or more recognized rating Services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year. However, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

July 11, 1996

- 20.07(11) Limited partnership investments in the Standish Small Cap Equity Fund shall not exceed 15% of the total portfolio valued at market.

October 6, 1994

- 20.03(1)(b) International equities shall not exceed 15% of the total book value of the portfolio at the time of purchase.
- 20.03(4) International fixed income investments shall not exceed 20% of the total portfolio valued at market.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

January 7, 1993

- 20.03(1) Equity investments shall not exceed 75% of the total portfolio valued at market.
- 20.03(1)(b) International equities shall not exceed 5% of the total portfolio valued at market..
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

November 19, 1992

- 20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

January 21, 1992

- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

December 26, 1991

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year: (a) 1% of the value of the fund for the first \$5 million; and (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

October 9, 1991

- 20.07(11) Limited partnership investments sponsored by Standish, Ayer & Wood, Inc. may be purchased in an amount not to exceed \$2,000,000.

May 8, 1991

- 20.03(4) International fixed income investments shall not exceed 10% of the total portfolio valued at market.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

January 2, 1991

- 18.02(4) A Statement of the rate of return objective for the entire portfolio which shall be 60% of the Standard and Poor's 500 Stock Index and 40% of the Shearson Lehman Government/Corporate Bond Index.
- 20.08(2) Consolidated Standish short-term Asset Reserve Fund.

November 17, 1988

- 20.07(10) Mutual funds shall not exceed 10% of the book value of the portfolio at the time of purchase.

August 11, 1987

- 20.03(2) At least 25% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

July 8, 1986

- 20.07(8) No load international mutual funds shall not exceed 10% of the total book value of the Portfolio at the time of purchase.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Wellesley 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, §. 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, §. 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, §. 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, §. 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 Wellesley Retirement System submitted comprehensive supplementary membership regulations on various dates, which were approved by PERAC. These regulations, in detail, are available for review at both the Wellesley Retirement Board and at PERAC.

March 29, 1985

#### Comprehensive Rules

I Introduction

II Eligibility for Membership

III Membership

IV Classification of Employees

V Service After Age 70

VI Average Annual Rate of Compensation

**VII Amount of Creditable Service**

VIII Involuntary Retirement

IX Application for Superannuation Retirement

X Application for Disability Retirement

XI [Not Approved]

XII Rehabilitation

#### Forms

3. Information Required Under Sec. 5-Superannuation Retirement

4. Information Required Under Sec. 6-Ordinary Disability Retirement

5. Information Required Under Sec. 7-Accidental Disability Retirement

6. Information Required Under Sec. 94-The Heart Law

7. Information Required Under Sec. 94A-The Smoke Law

8. Worksheet For Section 8 Adjustments

8a. Worksheet if there has been a previous adjustment under sec. 8, Refer to PERA Rules

July 3, 1985

#### Amendments to Comprehensive Rules

XI Adjustment of Disability Retirement Allowance Under Sec. 8





## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon as of January 1, 2004.

The actuarial liability for active members was	\$45,439,531
The actuarial liability for retired members was	<u>67,406,628</u>
The total actuarial liability was	112,846,159
System assets as of that date were	<u>116,792,365</u>
The unfunded actuarial liability was	<u>(\$3,946,206)</u>
The ratio of system's assets to total actuarial liability was	103.5%
As of that date the total covered employee payroll was	\$23,172,848

The normal cost for employees on that date was 8.1% of payroll  
 The normal cost for the employer was 5.8% of payroll

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

Investment Return: 7.5% per annum  
 Rate of Salary Increase: 4.5% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

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 )
1/1/2004	\$116,792,365	\$112,846,159	(\$3,946,206)	103.5%	\$23,172,848	-17.0%
1/1/2003	\$119,033,662	\$114,811,026	(\$4,222,636)	103.7%	\$22,572,703	-18.7%
1/1/2001	\$123,291,025	\$92,278,891	(\$31,012,134)	133.6%	\$21,561,329	-143.8%
1/1/1999	\$106,295,893	\$81,975,372	(\$24,320,521)	129.7%	\$17,694,603	-137.4%
1/1/1997	\$78,665,972	\$69,141,005	(\$9,524,967)	113.8%	\$17,800,326	-53.5%

## 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	14	9	15	23	23	9	33	6	11	6
Ordinary Disability	0	0	0	0	0	0	1	0	1	1
Accidental Disability	3	2	0	1	0	0	2	2	1	1
<b>Total Retirements</b>	17	11	15	24	23	9	36	8	13	8
Total Retirees, Beneficiaries and Survivors	391	388	387	395	400	395	420	413	418	414
Total Active Members	578	584	592	580	593	629	599	596	654	656
<b>Pension Payments</b>										
Superannuation	\$2,973,878	\$3,096,794	\$3,098,611	\$3,387,648	\$3,684,450	\$4,114,111	\$4,374,337	\$5,041,682	\$5,207,103	\$5,313,897
Survivor/Beneficiary Payments	236,781	284,058	284,998	279,848	276,800	292,788	312,892	357,253	483,546	462,252
Ordinary Disability	20,692	21,142	26,217	15,517	12,149	12,408	14,201	24,600	28,564	29,834
Accidental Disability	467,057	488,646	486,117	491,701	497,694	494,158	530,354	547,534	666,555	710,226
Other	271,263	255,981	260,332	310,103	296,192	457,378	304,882	352,957	355,874	363,120
<b>Total Payments for Year</b>	<u>\$3,969,671</u>	<u>\$4,146,621</u>	<u>\$4,156,275</u>	<u>\$4,484,817</u>	<u>\$4,767,285</u>	<u>\$5,370,843</u>	<u>\$5,536,666</u>	<u>\$6,324,026</u>	<u>\$6,741,642</u>	<u>\$6,879,329</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)