

PERAC AUDIT REPORT



Watertown Contributory Retirement System



JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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

November 6, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Watertown Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. 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 Carol Niemira and James Sweeney 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. Regular Compensation

There are several Collective Bargaining Agreements in the governmental units that include clothing allowance payments for employees. Retirement deductions are not withheld from these payments. These are regular recurring payments which must be classified as regular compensation for retirement purposes. The Board has been aware of this for several years, but to date the Town's payroll departments have not complied with the Board's direction to begin withholding retirement deductions from clothing allowance payments.

Recommendation: Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1)(a) which states in part:

“(a) To be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement;”

The Board must formally instruct the payroll officers to immediately begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be the same as the member's other compensation plus the additional 2% if total compensation exceeds \$30,000 annually on a per pay period basis.

Board Response:

The Board has formally advised the payroll officer in charge of disbursement that clothing allowances must be considered regular compensation and instructed him to begin withholding retirement deductions from such allowances beginning January 1, 2009.

2. Membership

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 annually and were hired after January 1, 1979. The Watertown Housing Authority was not correctly withholding the additional 2% for two of the thirteen members of that Authority for the pay period examined. The payroll system employed by the Authority appears to be semi-automated and the 2% deductions are manually input rather than calculated.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b/2), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. The Board should recommend that the Housing Authority instruct its payroll vendor to implement an automatic calculation to determine the correct 2% deduction. Until that happens the administrator should review deduction reports to ensure the retirement deductions are correct.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Director has reviewed the proper calculation method with the payroll officer at the Watertown Housing Authority. In addition, the Director will review the deduction reports thoroughly to ensure that the retirement deductions are withheld correctly.

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,		
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$484,131	\$595,403	\$69,969
Short Term Investments	694,003	345,957	269,267
Fixed Income Securities	6,663,825	6,742,204	3,090,276
Equities	7,472,137	7,834,170	11,619,232
Pooled Domestic Equity Funds	32,932,785	33,811,113	19,468,889
Pooled International Equity Funds	15,914,174	15,337,967	12,227,573
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	10,013,903	10,235,038	13,027,957
Pooled International Fixed Income Funds	3,975,041	3,561,457	4,117,627
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	3,054,219	2,849,969	2,096,970
Pooled Real Estate Funds	9,557,566	7,981,538	5,946,092
PRIT Cash Fund	0	0	0
PRIT Core Fund	4,795,513	0	0
Interest Due and Accrued	142,277	135,340	43,173
Accounts Receivable	160,836	164,362	6,200,780
Accounts Payable	(15,192)	(15,616)	(4,560)
Total	<u>\$95,845,218</u>	<u>\$89,578,902</u>	<u>\$78,173,247</u>
Fund Balances:			
Annuity Savings Fund	\$22,868,681	\$21,453,587	\$19,821,734
Annuity Reserve Fund	7,324,223	7,209,022	7,636,446
Pension Fund	24,632	522,560	494,657
Military Service Fund	21,080	20,954	8,766
Expense Fund	0	0	0
Pension Reserve Fund	65,606,602	60,372,779	50,211,644
Total	<u>\$95,845,218</u>	<u>\$89,578,902</u>	<u>\$78,173,247</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 (2005)	\$18,132,120	\$7,961,319	\$814,078	\$8,713	\$0	\$47,043,316	\$73,959,547
Receipts	2,375,297	231,523	7,220,587	52	796,977	4,033,052	14,657,488
Interfund Transfers	(366,223)	364,404	866,543	0	0	(864,724)	0
Disbursements	(319,461)	(920,800)	(8,406,551)	0	(796,977)	0	(10,443,788)
Ending Balance (2005)	19,821,734	7,636,446	494,657	8,766	0	50,211,644	78,173,247
Receipts	2,307,304	222,097	7,569,425	20,954	841,325	10,994,622	21,955,726
Interfund Transfers	(282,796)	251,715	866,543	(8,766)	0	(826,697)	0
Disbursements	(399,444)	(901,237)	(8,408,066)	0	(841,325)	0	(10,550,071)
Ending Balance (2006)	21,453,587	7,209,022	522,560	20,954	0	60,372,780	89,578,902
Receipts	2,578,984	217,761	7,792,475	126	983,725	5,209,932	16,783,003
Interfund Transfers	(858,614)	834,723	0	0	0	23,891	0
Disbursements	(305,276)	(937,284)	(8,290,402)	0	(983,725)	0	(10,516,687)
Ending Balance (2007)	<u>\$22,868,681</u>	<u>\$7,324,223</u>	<u>\$24,632</u>	<u>\$21,080</u>	<u>\$0</u>	<u>\$65,606,602</u>	<u>\$95,845,218</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$2,245,924	\$2,065,532	\$2,030,430
Transfers from Other Systems	173,812	64,672	167,196
Member Make Up Payments and Re-deposits	31,560	50,063	44,110
Member Payments from Rollovers	2,970	10,142	27,009
Investment Income Credited to Member Accounts	<u>124,718</u>	<u>116,895</u>	<u>106,551</u>
Sub Total	<u>2,578,984</u>	<u>2,307,304</u>	<u>2,375,297</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>217,761</u>	<u>222,097</u>	<u>231,523</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	92,396	102,748	65,827
Pension Fund Appropriation	<u>424,059</u>	<u>696,542</u>	<u>552,036</u>
Sub Total	<u>7,276,020</u>	<u>6,770,135</u>	<u>6,602,724</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	20,954	0
Investment Income Credited to the Military Service Fund	<u>126</u>	<u>0</u>	<u>52</u>
Sub Total	<u>126</u>	<u>20,954</u>	<u>52</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>983,725</u>	<u>841,325</u>	<u>796,977</u>
Sub Total	<u>983,725</u>	<u>841,325</u>	<u>796,977</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	50,593	76,859	20,391
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	2,748	3,395	1,187
Miscellaneous Income	0	3,339	129
Excess Investment Income	<u>5,156,591</u>	<u>10,911,029</u>	<u>4,011,345</u>
Sub Total	<u>5,209,932</u>	<u>10,994,622</u>	<u>4,033,052</u>
Total Receipts	<u>\$16,783,003</u>	<u>\$21,955,726</u>	<u>\$14,657,488</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$180,972	\$233,302	\$97,219
Transfers to Other Systems	<u>124,304</u>	<u>166,142</u>	<u>222,242</u>
Sub Total	<u>305,276</u>	<u>399,444</u>	<u>319,461</u>
Annuity Reserve Fund:			
Annuities Paid	921,566	901,237	898,626
Option B Refunds	<u>15,718</u>	<u>0</u>	<u>22,174</u>
Sub Total	<u>937,284</u>	<u>901,237</u>	<u>920,800</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,026,548	4,928,956	5,049,259
Survivorship Payments	580,244	573,273	571,757
Ordinary Disability Payments	129,985	127,692	135,712
Accidental Disability Payments	1,525,393	1,830,148	1,752,742
Accidental Death Payments	693,775	581,443	558,738
Section 101 Benefits	140,669	156,483	159,281
3 (8) (c) Reimbursements to Other Systems	193,789	210,070	179,062
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,290,402</u>	<u>8,408,066</u>	<u>8,406,551</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	13,000	14,500
Salaries	78,523	90,756	99,774
Legal Expenses	16,806	19,993	25,397
Medical Expenses	0	0	0
Travel Expenses	9,577	11,245	17,491
Administrative Expenses	34,889	35,796	35,934
Furniture and Equipment	13,996	3,257	137
Management Fees	719,268	565,472	522,354
Custodial Fees	23,330	24,561	20,149
Consultant Fees	50,000	55,000	55,000
Rent Expenses	0	0	0
Service Contracts	16,728	17,300	990
Fiduciary Insurance	<u>5,609</u>	<u>4,945</u>	<u>5,250</u>
Sub Total	<u>983,725</u>	<u>841,325</u>	<u>796,977</u>
Total Disbursements	<u>\$10,516,687</u>	<u>\$10,550,071</u>	<u>\$10,443,788</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$11,627	\$1,551	\$2,441
Short Term Investments	40,143	84,661	25,821
Fixed Income	559,952	369,169	335,667
Equities	252,791	266,452	233,103
Pooled or Mutual Funds	622,951	453,282	391,203
Commission Recapture	0	9,373	8,137
Total Investment Income	<u>1,487,465</u>	<u>1,184,487</u>	<u>996,371</u>
Plus:			
Realized Gains	3,036,391	4,036,273	2,295,064
Unrealized Gains	12,364,973	13,669,829	15,394,680
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>142,277</u>	<u>135,340</u>	<u>43,173</u>
Sub Total	<u>15,543,641</u>	<u>17,841,442</u>	<u>17,732,917</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(56,755)	(100,074)	(15,645)
Realized Loss	(827,270)	(1,395,410)	(1,112,423)
Unrealized Loss	(9,528,820)	(5,395,928)	(12,412,454)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(135,340)</u>	<u>(43,173)</u>	<u>(42,318)</u>
Sub Total	<u>(10,548,184)</u>	<u>(6,934,584)</u>	<u>(13,582,840)</u>
Net Investment Income	<u>6,482,922</u>	<u>12,091,345</u>	<u>5,146,448</u>
Income Required:			
Annuity Savings Fund	124,718	116,895	106,551
Annuity Reserve Fund	217,761	222,097	231,523
Military Service Fund	126	0	52
Expense Fund	<u>983,725</u>	<u>841,325</u>	<u>796,977</u>
Total Income Required	<u>1,326,331</u>	<u>1,180,316</u>	<u>1,135,103</u>
Net Investment Income	<u>6,482,922</u>	<u>12,091,345</u>	<u>5,146,448</u>
Less: Total Income Required	<u>1,326,331</u>	<u>1,180,316</u>	<u>1,135,103</u>
Excess Income To The Pension Reserve Fund	<u>\$5,156,591</u>	<u>\$10,911,029</u>	<u>\$4,011,345</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$484,131	0.5%
Short Term	694,003	0.7%
Fixed Income	6,663,825	7.0%
Equities	7,472,137	7.8%
Pooled Short Term Funds	0	0.0%
Pooled Domestic Equity Funds	32,932,785	34.5%
Pooled International Equity Funds	15,914,174	16.7%
Pooled Global Equity Funds	0	0.0%
Pooled Domestic Fixed Income Funds	10,013,903	10.5%
Pooled International Fixed Income Funds	3,975,041	4.2%
Pooled Global Fixed Income Funds	0	0.0%
Pooled Alternative Investment Funds	3,054,219	3.2%
Pooled Real Estate Funds	9,557,566	10.0%
Pooled Domestic Balanced Funds	0	0.0%
Pooled International Balanced Funds	0	0.0%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	4,795,513	5.0%
Grand Total	<u>\$95,557,297</u>	<u>100.0%</u>

For the year ending December 31, 2007, the rate of return for the investments of the Watertown Retirement System was 7.72%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Watertown Retirement System averaged 12.38%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Watertown Retirement System was 9.65%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

April 1, 2002

16.08

In accordance with Investment Guideline 99-2, the Watertown Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IRM Commingled Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

July 26, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Watertown Retirement Board may modify its investment contract with Hutchens Management Company to allow investment in mid cap equities. The board has had a satisfactory relationship with Hutchens as its domestic large cap manager. In recognition of Hutchens' strong performance results for mid cap equities, the Board believes that expanding its mandate to include mid caps is an appropriate way to achieve their asset allocation goals.

June 20, 1997

20.07(9)

Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

October 12, 1995

840 CMR 21.00: Prohibited Investments

(3) Future Contracts other than as follows:

- a. Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.
- b. Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 18, 1994

20.03(1)

Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 20% of the equity portfolio valued at market. Furthermore, international equity investments shall not exceed 10% of the entire portfolio valued at market.

March 20, 1991

18.02(4)

Rate of Return.

A Statement of the rate of return objective for the entire portfolio which shall be equal to or in excess of 8%.

20.03(1)

Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

October 5, 1989

(1) Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

March 18, 1986

20.07(6)

Purchase and sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve month period.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Watertown 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 no later than the end of month they attain 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 \$687.96 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 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 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 Watertown Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 11, 2004

Leave Taken in Conjunction with Unpaid Leave

1. Creditable service shall include any periods of continuous absence during which a member receives partial regular compensation. During such periods, the member shall receive creditable service in proportion to the percentage of partial regular compensation received. If the percentage of partial regular compensation received during such periods equals or exceeds fifty percent (50%) the member shall be credited with full creditable service.

Example: A member on continuance absence under the Family and Medical Leave Act who receives one day of regular compensation per five-day week shall be credited with one day of creditable service for that week. A member who utilizes two and one-half days of regular compensation, or greater, shall receive full creditable service.

2. Creditable service may be allowed by the board for any period of continuous absence without regular compensation which is not in excess of one month. Any portion of any leave or period of continuous absence of any member without regular compensation which is in excess of one month shall not be counted as creditable service.

Example: A member who on unpaid leave under the Family and Medical Leave Act may, upon petition to the Board, receive up to one month of creditable service during such period without payment of retirement contributions.

October 2, 2002

Membership

Part Time and Temporary Full Time employees of the Watertown School Department shall be eligible for membership in the Watertown Retirement System after fifteen (15) months of consecutive school year employment in a position which requires him/her to work a minimum of 20 hours per week.

April 9, 2001

Liability

The Board will not accept liability for service for noncontributing employment service requested by members of other retirement systems, unless the former employees were wrongfully excluded or omitted from membership in the Watertown Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 18, 2000

Employment Service Rendered Under Federal Grants

After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Watertown Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Watertown Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Watertown Retirement System.

2. Active members of the Watertown Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in the Watertown Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Watertown Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.

3. Active members of the Watertown Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

December 8, 2003

Travel

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2008.

The actuarial liability for active members was	\$63,728,785
The actuarial liability for retired and inactive members was	<u>76,820,626</u>
The total actuarial liability was	140,549,411
System assets as of that date were (actuarial value)	<u>97,038,107</u>
The unfunded actuarial liability was	<u>\$43,511,304</u>
The ratio of system's assets to total actuarial liability was	69.0%
As of that date the total covered employee payroll was	\$24,654,987

The normal cost for employees on that date was	8.3% of payroll
The normal cost for the employer was	5.6% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

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)
1/1/2008	\$97,038,107	\$140,549,411	\$43,511,304	69.0%	\$24,654,987	176.5%
1/1/2007	\$89,578,902	\$132,669,842	\$43,090,940	67.5%	\$23,088,471	186.6%
1/1/2006	\$77,395,170	\$130,484,841	\$53,089,671	59.3%	\$22,327,190	237.8%
1/1/2004	\$72,563,856	\$120,699,469	\$48,135,613	60.1%	\$21,673,650	222.1%
1/1/2002	\$70,633,407	\$111,494,385	\$40,860,978	63.4%	\$19,735,159	207.0%
1/1/2001	\$66,804,435	\$100,876,281	\$34,071,846	66.2%	\$19,379,204	175.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	12	5	15	15	5	21	8	1	6	13
Ordinary Disability	0	0	1	0	0	0	0	2	0	0
Accidental Disability	0	1	1	3	1	0	1	4	0	1
Total Retirements	12	6	17	18	6	21	9	7	6	14
Total Retirees, Beneficiaries and Survivors	471	466	463	454	452	443	438	420	409	407
Total Active Members	541	538	534	533	539	519	515	512	518	515
Pension Payments										
Superannuation	\$3,586,945	\$3,580,175	\$3,986,891	\$4,183,782	\$4,271,879	\$4,680,344	\$4,844,697	\$5,049,259	\$4,928,956	\$5,026,548
Survivor/Beneficiary Payments	378,622	409,219	441,610	494,743	497,874	550,002	550,467	571,757	573,273	580,244
Ordinary Disability	146,167	147,038	148,229	147,881	148,043	147,850	142,978	135,712	127,692	129,985
Accidental Disability	419,113	444,209	464,085	1,284,801	1,483,845	1,517,265	1,601,719	1,752,742	1,830,148	1,525,393
Other	239,929	241,916	249,790	791,630	790,212	792,244	814,974	718,020	737,926	834,443
Total Payments for Year	<u>\$4,770,776</u>	<u>\$4,822,557</u>	<u>\$5,290,605</u>	<u>\$6,902,837</u>	<u>\$7,191,852</u>	<u>\$7,687,705</u>	<u>\$7,954,835</u>	<u>\$8,227,489</u>	<u>\$8,197,996</u>	<u>\$8,096,613</u>

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