

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Needham  
Contributory Retirement System  
For the Three Year Period  
January 1, 2000 - December 31, 2002  
PERAC 02: 10-065-28**

## 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 Income .....                           | 6  |
| Statement Of Disbursements.....                     | 7  |
| Investment Income.....                              | 8  |
| Statement Of Allocation Of Investments Owned .....  | 9  |
| Supplementary Investment Regulations .....          | 10 |
| <u>Notes to Financial Statements:</u>               |    |
| Note 1 - The System.....                            | 11 |
| Note 2 - Significant Accounting Policies.....       | 12 |
| Note 3 - Supplementary Membership Regulations ..... | 13 |
| Note 4 - Administration Of The System .....         | 14 |
| Note 5 - Actuarial Valuation And Assumptions .....  | 15 |
| Note 6 - Membership Exhibit.....                    | 16 |

May 28, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Needham** Retirement System pursuant to G.L. c. 32, §. 21. The examination covered the period from January 1, **2000** to December 31, **2002**. 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 examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton  
Executive Director

## Needham Retirement System

### EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

1. **Supplemental Membership Regulations**

The Needham Retirement Board has adopted various supplemental membership regulations over the years. However, the regulations have not been documented and submitted to PERAC for approval. All supplemental rules adopted by the Board must be submitted to PERAC for approval pursuant to G.L. c. 32, § 21(4) and 840 CMR 14.00. If not submitted and approved, they will not be considered in effect and enforceable.

**Recommendation**

Meeting minutes must be reviewed and all supplemental rules voted on and adopted by the Board must be documented and submitted to PERAC for approval.

**Board Response**

The Needham Retirement Board has instructed their staff to review meeting minutes and extrapolate any rules that have been voted on and adopted by the board. They will document any such supplemental rules found and prepare them for submission to PERAC as recommended in as timely a manner as possible.

2. **Bank Reconciliation**

At the time of the audit the Fleet Bank checking account had not been reconciled in over 18 months.

**Recommendation**

The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system and must be completed in a timely manner.

**Board Response**

The Needham Retirement Board had been unable to achieve their stated goal of reconciling this account in 2002 due to staff shortages. The Needham Retirement Board Fleet Bank checking account is being reconciled on a monthly basis and is current.

3. **Bonding**

The Needham Retirement Board currently has a \$10,000 dishonesty bond for the Board administrative staff. PERAC Regulation 840 CMR 17.01 requires a \$500,000 bond to provide reasonable protection against losses due to fraud and dishonesty covering the Board members and staff.

## **Needham Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

#### **Recommendation**

The Board must secure the required coverage for Board members and staff.

#### **Board Response**

The Needham Retirement Board acquired and maintains the required coverage as of July 6, 2003.

#### **Final Determination**

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

## Needham Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2002**

| <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                             | <b>2002</b>                | <b>2001</b>                | <b>2000</b>                |
| Cash                                      | \$487,536                  | \$669,431                  | \$609,128                  |
| Short Term Investments                    | 0                          | 0                          | 0                          |
| Fixed Income Securities (at book value)   | 0                          | 0                          | 0                          |
| Equities                                  | 0                          | 0                          | 0                          |
| Pooled Short Term Funds                   | 0                          | 0                          | 0                          |
| Pooled Domestic Equity Funds              | 0                          | 0                          | 0                          |
| Pooled International Equity Funds         | 0                          | 0                          | 0                          |
| Pooled Global Equity Funds                | 0                          | 0                          | 0                          |
| Pooled Domestic Fixed Income Funds        | 0                          | 0                          | 0                          |
| Pooled International Fixed Income Funds   | 0                          | 0                          | 0                          |
| Pooled Global Fixed Income Funds          | 0                          | 0                          | 0                          |
| Pooled Alternative Investment Funds       | 0                          | 0                          | 0                          |
| Pooled Real Estate Funds                  | 0                          | 0                          | 0                          |
| Pooled Domestic Balanced Funds            | 0                          | 0                          | 0                          |
| Pooled International Balanced Funds       | 0                          | 0                          | 0                          |
| PRIT Cash Fund                            | 658,344                    | 488,389                    | 46,452                     |
| PRIT Core Fund                            | 68,287,196                 | 78,306,658                 | 86,442,217                 |
| Interest Due and Accrued                  | 0                          | 0                          | 0                          |
| Accounts Receivable                       | 2,977                      | 837,405                    | 34,763                     |
| Accounts Payable                          | (20,991)                   | (34,901)                   | (18,436)                   |
| <b>TOTAL</b>                              | <b><u>\$69,415,062</u></b> | <b><u>\$80,266,983</u></b> | <b><u>\$87,114,123</u></b> |
| <b>FUND BALANCES</b>                      |                            |                            |                            |
| Annuity Savings Fund                      | \$17,005,585               | \$16,246,820               | \$15,359,370               |
| Annuity Reserve Fund                      | 7,138,484                  | 6,961,900                  | 6,945,251                  |
| Pension Fund                              | 5,326,610                  | 5,922,192                  | 5,703,186                  |
| Military Service Fund                     | 3,776                      | 3,724                      | 3,654                      |
| Expense Fund                              | 0                          | 0                          | 0                          |
| Pension Reserve Fund                      | <u>39,940,607</u>          | <u>51,132,347</u>          | <u>59,102,662</u>          |
| <b>TOTAL</b>                              | <b><u>\$69,415,062</u></b> | <b><u>\$80,266,983</u></b> | <b><u>\$87,114,123</u></b> |

## Needham Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2002**

|                                 | <u>Annuity<br/>Savings<br/>Fund</u> | <u>Annuity<br/>Reserve<br/>Fund</u> | <u>Pension<br/>Fund</u>   | <u>Military<br/>Service<br/>Fund</u> | <u>Expense<br/>Fund</u> | <u>Pension<br/>Reserve<br/>Fund</u> | <u>Total<br/>All<br/>Funds</u> |
|---------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------------------------------|-------------------------|-------------------------------------|--------------------------------|
| <b>Beginning Balance (2000)</b> | \$14,855,468                        | \$6,856,882                         | \$6,048,583               | \$6,094                              | \$0                     | \$61,815,210                        | <b>\$89,582,237</b>            |
| Receipts                        | 1,847,462                           | 203,558                             | 3,164,944                 | 75                                   | 445,692                 | (829,438)                           | <b>4,832,294</b>               |
| Interfund Transfers             | (736,674)                           | 739,476                             | 1,882,823                 | (2,515)                              | 0                       | (1,883,110)                         | <b>0</b>                       |
| Disbursements                   | <u>(606,886)</u>                    | <u>(854,665)</u>                    | <u>(5,393,165)</u>        | <u>0</u>                             | <u>(445,692)</u>        | <u>0</u>                            | <b><u>(7,300,408)</u></b>      |
| <b>Ending Balance (2000)</b>    | <b>15,359,370</b>                   | <b>6,945,251</b>                    | <b>5,703,186</b>          | <b>3,654</b>                         | <b>0</b>                | <b>59,102,662</b>                   | <b>87,114,123</b>              |
| Receipts                        | 2,153,826                           | 207,641                             | 3,248,077                 | 69                                   | 415,716                 | (5,380,451)                         | <b>644,878</b>                 |
| Interfund Transfers             | (714,761)                           | 719,270                             | 2,585,354                 | 0                                    | 0                       | (2,589,863)                         | <b>0</b>                       |
| Disbursements                   | <u>(551,615)</u>                    | <u>(910,262)</u>                    | <u>(5,614,425)</u>        | <u>0</u>                             | <u>(415,716)</u>        | <u>0</u>                            | <b><u>(7,492,018)</u></b>      |
| <b>Ending Balance (2001)</b>    | <b>16,246,820</b>                   | <b>6,961,900</b>                    | <b>5,922,192</b>          | <b>3,724</b>                         | <b>0</b>                | <b>51,132,347</b>                   | <b>80,266,983</b>              |
| Receipts                        | 2,085,525                           | 203,520                             | 1,750,805                 | 52                                   | 423,495                 | (7,641,941)                         | <b>(3,178,544)</b>             |
| Interfund Transfers             | (905,932)                           | 906,431                             | 3,549,300                 | 0                                    | 0                       | (3,549,799)                         | <b>0</b>                       |
| Disbursements                   | <u>(420,828)</u>                    | <u>(933,367)</u>                    | <u>(5,895,687)</u>        | <u>0</u>                             | <u>(423,495)</u>        | <u>0</u>                            | <b><u>(7,673,377)</u></b>      |
| <b>Ending Balance (2002)</b>    | <b><u>\$17,005,585</u></b>          | <b><u>\$7,138,484</u></b>           | <b><u>\$5,326,610</u></b> | <b><u>\$3,776</u></b>                | <b><u>\$0</u></b>       | <b><u>\$39,940,607</u></b>          | <b><u>\$69,415,062</u></b>     |

# Needham Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2002**

|  | <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                           |                           |
|--|---|---------------------------|---------------------------|
|  | <b>2002</b>                               | <b>2001</b>               | <b>2000</b>               |
| <b>Annuity Savings Fund:</b>   |   |                           |                           |
| Members Deductions   | \$1,697,298                               | \$1,562,765               | \$1,456,483               |
| Transfers from other Systems   | 134,806                                   | 312,840                   | 79,519                    |
| Member Make Up Payments and Redeposits                                 | 38,048                                    | 3,483                     | 17,049                    |
| Investment Income Credited to Member Accounts                          | <u>215,374</u>                            | <u>274,738</u>            | <u>294,411</u>            |
| <b>Sub Total</b>   | <b><u>2,085,525</u></b>                   | <b><u>2,153,826</u></b>   | <b><u>1,847,462</u></b>   |
| <b>Annuity Reserve Fund:</b>   |   |                           |                           |
| Investment Income Credited Annuity Reserve Fund                        | <u>203,520</u>                            | <u>207,641</u>            | <u>203,558</u>            |
| <b>Pension Fund:</b>   |   |                           |                           |
| 3 (8) (c) Reimbursements from Other Systems                            | 97,951                                    | 96,827                    | 76,444                    |
| Received from Commonwealth for COLA and Survivor Benefits              | (700,146)                                 | 836,250                   | 334,500                   |
| Pension Fund Appropriation   | <u>2,353,000</u>                          | <u>2,315,000</u>          | <u>2,754,000</u>          |
| <b>Sub Total</b>   | <b><u>1,750,805</u></b>                   | <b><u>3,248,077</u></b>   | <b><u>3,164,944</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>52</u>                                 | <u>69</u>                 | <u>75</u>                 |
| <b>Sub Total</b>   | <b><u>52</u></b>                          | <b><u>69</u></b>          | <b><u>75</u></b>          |
| <b>Expense Fund:</b>   |   |                           |                           |
| Expense Fund Appropriation   | 0   | (19,664)                  | 0                         |
| Investment Income Credited to Expense Fund                             | <u>423,495</u>                            | <u>435,380</u>            | <u>445,692</u>            |
| <b>Sub Total</b>   | <b><u>423,495</u></b>                     | <b><u>415,716</u></b>     | <b><u>445,692</u></b>     |
| <b>Pension Reserve Fund:</b>   |   |                           |                           |
| Federal Grant Reimbursement  | 0   | 0                         | 0                         |
| Pension Reserve Appropriation  | 0   | 0                         | 0                         |
| Interest Not Refunded  | 9,883                                     | 3,429                     | 25,141                    |
| Excess Investment Income   | <u>(7,651,824)</u>                        | <u>(5,383,881)</u>        | <u>(854,579)</u>          |
| <b>Sub Total</b>   | <b><u>(7,641,941)</u></b>                 | <b><u>(5,380,451)</u></b> | <b><u>(829,438)</u></b>   |
| <b>TOTAL RECEIPTS</b>  | <b><u>(\$3,178,544)</u></b>               | <b><u>\$644,878</u></b>   | <b><u>\$4,832,294</u></b> |



# Needham Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2002**

|  | <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                           |                           |
|--|---|---------------------------|---------------------------|
|  | <b>2002</b>                               | <b>2001</b>               | <b>2000</b>               |
| <b>Annuity Savings Fund:</b>                                   |   |                           |                           |
| Refunds to Members   | \$212,356                                 | \$197,316                 | \$333,621                 |
| Transfers to other Systems                                     | <u>208,472</u>                            | <u>354,299</u>            | <u>273,264</u>            |
| <b>Sub Total</b>   | <b><u>420,828</u></b>                     | <b><u>551,615</u></b>     | <b><u>606,886</u></b>     |
| <b>Annuity Reserve Fund:</b>                                   |   |                           |                           |
| Annuities Paid   | 930,715                                   | 896,996                   | 849,639                   |
| Option B Refunds   | <u>2,652</u>                              | <u>13,266</u>             | <u>5,026</u>              |
| <b>Sub Total</b>   | <b><u>933,367</u></b>                     | <b><u>910,262</u></b>     | <b><u>854,665</u></b>     |
| <b>Pension Fund:</b>   |   |                           |                           |
| Pensions Paid  |   |                           |                           |
| Regular Pension Payments                                       | 4,295,624                                 | 4,065,330                 | 3,915,473                 |
| Survivorship Payments  | 264,497                                   | 225,317                   | 218,169                   |
| Ordinary Disability Payments                                   | 55,141                                    | 53,732                    | 52,726                    |
| Accidental Disability Payments                                 | 827,090                                   | 833,125                   | 804,236                   |
| Accidental Death Payments                                      | 279,679                                   | 265,655                   | 262,747                   |
| Section 101 Benefits   | 25,560                                    | 19,006                    | 18,198                    |
| 3 (8) (c) Reimbursements to Other Systems                      | 148,095                                   | 152,260                   | 121,617                   |
| 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>5,895,687</u></b>                   | <b><u>5,614,425</u></b>   | <b><u>5,393,165</u></b>   |
| <b>Military Service Fund:</b>                                  |   |                           |                           |
| Return to Municipality for Members Who<br>Withdrew Their Funds | <u>0</u>                                  | <u>0</u>                  | <u>0</u>                  |
| <b>Expense Fund:</b>   |   |                           |                           |
| Board Member Stipend   | 0   | 0                         | 0                         |
| Salaries   | 81,380                                    | 66,718                    | 77,267                    |
| Legal Expenses   | 1,796                                     | 2,097                     | 4,389                     |
| Medical Expenses   | 0   | 350                       | 0                         |
| Travel Expenses  | 11,790                                    | 10,235                    | 11,477                    |
| Administrative Expenses  | 21,741                                    | 10,511                    | 22,527                    |
| Furniture and Equipment  | 2,124                                     | 0                         | 0                         |
| Management Fees  | 304,664                                   | 325,804                   | 330,033                   |
| Custodial Fees   | 0   | 0                         | 0                         |
| Consultant Fees  | <u>0</u>                                  | <u>0</u>                  | <u>0</u>                  |
| <b>Sub Total</b>   | <b><u>423,495</u></b>                     | <b><u>415,716</u></b>     | <b><u>445,692</u></b>     |
| <b>TOTAL DISBURSEMENTS</b>                                     | <b><u>\$7,673,377</u></b>                 | <b><u>\$7,492,018</u></b> | <b><u>\$7,300,408</u></b> |

# Needham Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2002**

|   | <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                             |                           |
|---|---|-----------------------------|---------------------------|
|   | <b>2002</b>                               | <b>2001</b>                 | <b>2000</b>               |
| <b>Investment Income Received From:</b>                               |   |                             |                           |
| Cash  | 14,289                                    | 38,558                      | 44,621                    |
| Short Term Investments  | 0   | 0                           | 0                         |
| Fixed Income  | 0   | 0                           | 0                         |
| Equities  | 0   | 0                           | 0                         |
| Pooled or Mutual Funds  | <u>2,433,279</u>                          | <u>2,675,738</u>            | <u>3,828,186</u>          |
| Commission Recapture  | <u>0</u>                                  |                             |                           |
| <b>TOTAL INVESTMENT INCOME</b>  | <b><u>2,447,569</u></b>                   | <b><u>2,714,296</u></b>     | <b><u>3,872,807</u></b>   |
| <b>Plus:</b>  |   |                             |                           |
| Increase in Amortization of Fixed Income Securities                   | 0   | 0                           | 0                         |
| Realized Gains  | 2,742,797                                 | 0                           | 6,578,877                 |
| Unrealized Gains  | 5,192,841                                 | (6,735,414)                 | (11,048,157)              |
| Interest Due and Accrued on Fixed Income Securities -<br>Current Year | <u>0</u>                                  | <u>0</u>                    | <u>0</u>                  |
| <b>Sub Total</b>  | <b><u>7,935,638</u></b>                   | <b><u>(6,735,414)</u></b>   | <b><u>(4,469,280)</u></b> |
| <b>Less:</b>  |   |                             |                           |
| Decrease in Amortization of Fixed Income Securities                   | 0   | 0                           | 0                         |
| Paid Accrued Interest on Fixed Income Securities                      | 0   | 0                           | 0                         |
| Realized Loss   | (2,055,075)                               | (444,935)                   | 684,880                   |
| Unrealized Loss   | (15,147,602)                              | 0                           | 0                         |
| 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 -<br>Prior Year   | <u>0</u>                                  | <u>0</u>                    | <u>0</u>                  |
| <b>Sub Total</b>  | <b><u>(17,202,676)</u></b>                | <b><u>(444,935)</u></b>     | <b><u>684,880</u></b>     |
| <b>NET INVESTMENT INCOME</b>  | <b><u>(6,819,469)</u></b>                 | <b><u>(4,466,053)</u></b>   | <b><u>88,407</u></b>      |
| <b>Income Required:</b>   |   |                             |                           |
| Annuity Savings Fund  | 215,374                                   | 274,738                     | 294,411                   |
| Annuity Reserve Fund  | 203,520                                   | 207,641                     | 203,558                   |
| Military Service Fund   | 52  | 69                          | 75                        |
| Expense Fund  | <u>423,495</u>                            | <u>435,380</u>              | <u>445,692</u>            |
| <b>TOTAL INCOME REQUIRED</b>  | <b><u>842,441</u></b>                     | <b><u>917,828</u></b>       | <b><u>943,737</u></b>     |
| Net Investment Income   | <u>(6,819,469)</u>                        | <u>(4,466,053)</u>          | <u>88,407</u>             |
| Less: Total Income Required   | <u>842,441</u>                            | <u>917,828</u>              | <u>943,737</u>            |
| <b>EXCESS INCOME TO THE PENSION<br/>RESERVE FUND</b>                  | <b><u>(\$7,661,910)</u></b>               | <b><u>(\$5,383,881)</u></b> | <b><u>(\$855,330)</u></b> |

## Needham Retirement System

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

|   | BOOK VALUE* | MARKET<br>VALUE            | PERCENTAGE<br>OF TOTAL<br>ASSETS | PERCENTAGE<br>ALLOWED* |
|---|-------------|----------------------------|----------------------------------|------------------------|
| Cash                                    |             | \$487,536                  | 0.70%                            | 100                    |
| Short Term                              |             | 0                          | 0.00%                            | 100                    |
| Fixed Income                            |             | 0                          | 0.00%                            | 40 - 80                |
| Equities                                |             | 0                          | 0.00%                            | 40                     |
| Pooled Short Term Funds                 |             | 0                          | 0.00%                            |                        |
| Pooled Domestic Equity Funds            |             | 0                          | 0.00%                            |                        |
| Pooled International Equity Funds       |             | 0                          | 0.00%                            |                        |
| Pooled Global Equity Funds              |             | 0                          | 0.00%                            |                        |
| Pooled Domestic Fixed Income Funds      |             | 0                          | 0.00%                            |                        |
| Pooled International Fixed Income Funds |             | 0                          | 0.00%                            |                        |
| Pooled Global Fixed Income Funds        |             | 0                          | 0.00%                            |                        |
| Pooled Alternative Investment Funds     |             | 0                          | 0.00%                            |                        |
| Pooled Real Estate Funds                |             | 0                          | 0.00%                            |                        |
| Pooled Domestic Balanced Funds          |             | 0                          | 0.00%                            |                        |
| Pooled International Balanced Funds     |             | 0                          | 0.00%                            |                        |
| PRIT Cash Fund                          |             | 658,344                    | 0.95%                            |                        |
| PRIT Core Fund                          |             | <u>68,287,196</u>          | <u>98.35%</u>                    | 100                    |
| <b>GRAND TOTALS</b>                     | <b>\$0</b>  | <b><u>\$69,433,076</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, **2002**, the rate of return for the investments of the **Needham** Retirement System was -8.84%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Needham** Retirement System averaged 4.08%. For the 18-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Needham** Retirement System was 10.46%.

## **Needham Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

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

The Needham Retirement System is invested 100% in PRIT and therefore has no supplemental investment regulations.

# Needham Retirement System

## NOTES TO FINANCIAL STATEMENTS

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Needham** 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

## Needham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

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.

## Needham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

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.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

The Needham Retirement Board has voted on and adopted supplemental membership regulations over the years, however, they have never been documented and submitted to PERAC for approval.

## Needham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

#### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the 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: Evelyn Poness

Elected Member: John P. Krawiecki                      Term Expires: 12/17/05

Elected Member: Thomas A. Welch                      Term Expires: 07/24/04

Appointed Member: Kate Fitzpatrick                      Term Expires: 11/06/05

Appointed Member: Robert P. Mearls                      Term Expires: 04/15/06

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:     | ) |          |
| Elected Member:        | ) |          |
| Appointed Member:      | ) |          |
| Staff Employee:        | ) | \$10,000 |



## Needham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2003**.

|   |                            |
|---|----------------------------|
| The actuarial liability for active members was                | \$47,870,610               |
| The actuarial liability for retired and inactive members was  | <u>60,667,146</u>          |
| The total actuarial liability was                             | <b>108,537,756</b>         |
| System assets as of that date were                            | <u>76,356,568</u>          |
| The unfunded actuarial liability was                          | <b><u>\$32,181,188</u></b> |
| <br>  |                            |
| The ratio of system's assets to total actuarial liability was | 70.4%                      |
| As of that date the total covered employee payroll was        | \$21,380,463               |

The normal cost for employees on that date was 8.40% of payroll  
 The normal cost for the employer was 4.00% of payroll

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

**Investment Return:** 8.25% per annum  
**Rate of Salary Increase:** 5.50% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>( a ) | Actuarial<br>Accrued<br>Liability<br>( b ) | Unfunded<br>AAL<br>(UAAL)<br>( b-a ) | Funded<br>Ratio<br>( a/b ) | Covered<br>Payroll<br>( c ) | UAAL as a<br>% of<br>Cov. Payroll<br>( (b-a)/c ) |
|--------------------------------|--|--|--------------------------------------|----------------------------|-----------------------------|--|
| 1/1/2003                       | \$ 76,356,568                            | \$ 108,537,756                             | \$ 32,181,188                        | 70.4%                      | \$ 21,380,463               | 150.5%   |
| 1/1/2000                       | \$ 80,624,013                            | \$ 88,236,491                              | \$ 7,612,478                         | 91.4%                      | \$ 18,313,876               | 41.6%  |
| 1/1/1997                       | \$ 50,591,567                            | \$ 69,604,902                              | \$ 19,013,335                        | 72.7%                      | \$ 16,120,405               | 117.9%   |
| 1/1/1995                       | \$ 41,448,079                            | \$ 66,617,237                              | \$ 25,169,158                        | 62.2%                      | \$ 12,547,993               | 200.6%   |

## Needham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002**

#### NOTE 6 - MEMBERSHIP EXHIBIT

| <b>Retirement in Past Years</b>             | <b>1993</b>               | <b>1994</b>               | <b>1995</b>               | <b>1996</b>               | <b>1997</b>               | <b>1998</b>               | <b>1999</b>               | <b>2000</b>               | <b>2001</b>               | <b>2002</b>               |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Superannuation                              | *                         | *                         | *                         | *                         | 19                        | 19                        | 4                         | 20                        | 15                        | 9                         |
| Ordinary Disability                         | *                         | *                         | *                         | *                         | 0                         | 1                         | 0                         | 0                         | 0                         | 0                         |
| Accidental Disability                       | *                         | *                         | *                         | *                         | 0                         | 2                         | 0                         | 1                         | 3                         | 0                         |
| <b>Total Retirements</b>                    | <b>0</b>                  | <b>0</b>                  | <b>0</b>                  | <b>0</b>                  | <b>19</b>                 | <b>22</b>                 | <b>4</b>                  | <b>21</b>                 | <b>18</b>                 | <b>9</b>                  |
| <br>  |                           |                           |                           |                           |                           |                           |                           |                           |                           |                           |
| Total Retirees, Beneficiaries and Survivors | 521                       | 530                       | 535                       | 531                       | 536                       | 559                       | 539                       | 541                       | 531                       | 541                       |
| <br>  |                           |                           |                           |                           |                           |                           |                           |                           |                           |                           |
| Total Active Members                        | 786                       | 618                       | 521                       | 548                       | 612                       | 590                       | 545                       | 587                       | 592                       | 612                       |
| <br>  |                           |                           |                           |                           |                           |                           |                           |                           |                           |                           |
| <b>Pension Payments</b>                     |                           |                           |                           |                           |                           |                           |                           |                           |                           |                           |
| Superannuation                              | \$2,734,100               | \$2,913,190               | \$3,182,769               | \$3,183,926               | \$3,324,306               | \$3,609,659               | \$3,649,454               | \$3,915,473               | \$4,065,330               | \$4,295,624               |
| Survivor/Beneficiary Payments               | 205,509                   | 288,862                   | 203,338                   | 206,814                   | 224,580                   | 236,083                   | 212,785                   | 218,169                   | 225,317                   | 264,497                   |
| Ordinary Disability                         | 53,670                    | 74,129                    | 77,648                    | 75,070                    | 49,547                    | 42,147                    | 49,102                    | 52,726                    | 53,732                    | 55,141                    |
| Accidental Disability                       | 564,286                   | 575,507                   | 593,648                   | 765,424                   | 699,368                   | 723,309                   | 756,759                   | 804,236                   | 833,125                   | 827,090                   |
| Other                                       | <u>277,574</u>            | <u>97,634</u>             | <u>195,502</u>            | <u>196,402</u>            | <u>316,376</u>            | <u>376,422</u>            | <u>383,780</u>            | <u>402,562</u>            | <u>436,921</u>            | <u>453,335</u>            |
| <b>Total Payments for Year</b>              | <b><u>\$3,835,139</u></b> | <b><u>\$3,949,322</u></b> | <b><u>\$4,252,905</u></b> | <b><u>\$4,427,636</u></b> | <b><u>\$4,614,177</u></b> | <b><u>\$4,987,620</u></b> | <b><u>\$5,051,880</u></b> | <b><u>\$5,393,165</u></b> | <b><u>\$5,614,425</u></b> | <b><u>\$5,895,687</u></b> |