

# PERAC AUDIT REPORT



Andover Contributory  
Retirement System



JAN. 1, 2012 - DEC. 31, 2014





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | KATHLEEN M. FALLON | JAMES M. MACHADO | ROBERT B. McCARTHY

April 13, 2016

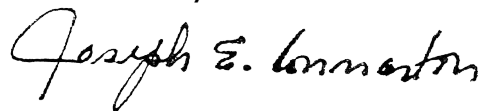
The Public Employee Retirement Administration Commission has completed an examination of the Andover Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management 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.

We commend the Andover Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Patty Morrison and Amy Chow who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2014	2013	2012
<b>Net Assets Available For Benefits:</b>			
Cash	\$581,769	\$547,064	\$561,848
PRIT Cash Fund	335,092	100,045	125,084
PRIT Core Fund	114,181,243	108,682,108	96,187,295
Accounts Receivable	104,790	5,185	16,072
Accounts Payable	(17,125)	(391)	(2,974)
<b>Total</b>	<u>\$115,185,770</u>	<u>\$109,334,010</u>	<u>\$96,887,326</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$38,303,796	\$36,692,823	\$35,395,108
Annuity Reserve Fund	11,096,148	10,995,737	10,332,480
Pension Fund	0	0	0
Military Service Fund	12,293	12,281	12,268
Expense Fund	0	0	0
Pension Reserve Fund	<u>65,773,533</u>	<u>61,633,170</u>	<u>51,147,469</u>
<b>Total</b>	<u>\$115,185,770</u>	<u>\$109,334,010</u>	<u>\$96,887,326</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 (2012)	\$33,710,408	\$10,104,356	\$0	\$8,238	\$0	\$43,443,575	\$87,266,576
Receipts	3,590,188	304,064	5,801,651	4,030	707,485	10,790,340	21,197,757
Interfund Transfers	(1,588,766)	1,586,250	3,088,961	0	0	(3,086,445)	0
Disbursements	(316,722)	(1,662,190)	(8,890,612)	0	(707,485)	0	(11,577,008)
Ending Balance (2012)	35,395,108	10,332,480	0	12,268	0	51,147,469	96,887,326
Receipts	3,807,944	313,972	6,318,472	12	784,187	13,519,076	24,743,663
Interfund Transfers	(2,066,430)	2,058,750	3,041,056	0	0	(3,033,375)	0
Disbursements	(443,799)	(1,709,465)	(9,359,527)	0	(784,187)	0	(12,296,978)
Ending Balance (2013)	36,692,823	10,995,737	0	12,281	0	61,633,170	109,334,010
Receipts	3,760,719	328,329	6,718,077	12	835,038	7,469,800	19,111,974
Interfund Transfers	(1,662,816)	1,635,659	3,356,593	0	0	(3,329,437)	0
Disbursements	(486,915)	(1,863,577)	(10,074,670)	0	(835,038)	0	(13,260,200)
Ending Balance (2014)	\$38,303,796	\$11,096,148	\$0	\$12,293	\$0	\$65,773,533	\$115,185,770

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Members Deductions	\$3,435,821	\$3,339,123	\$3,182,673
Transfers from Other Systems	202,309	294,428	283,467
Member Make Up Payments and Re-deposits	44,040	79,835	45,373
Member Payments from Rollovers	31,393	54,690	34,664
Investment Income Credited to Member Accounts	<u>47,155</u>	<u>39,867</u>	<u>44,012</u>
Sub Total	<u>3,760,719</u>	<u>3,807,944</u>	<u>3,590,188</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>328,329</u>	<u>313,972</u>	<u>304,064</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	356,834	393,561	315,636
Pension Fund Appropriation	79,846	91,280	102,465
Settlement of Workers' Compensation Claims	6,281,397	5,814,431	5,383,550
Recovery of 91A Overearnings	0	19,200	0
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,718,077</u>	<u>6,318,472</u>	<u>5,801,651</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	4,022
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>12</u>	<u>8</u>
Sub Total	<u>12</u>	<u>12</u>	<u>4,030</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>835,038</u>	<u>784,187</u>	<u>707,485</u>
<b>Pension Reserve Fund:</b>			
Interest Not Refunded	1,291	152	4,800
Miscellaneous Income	153	3,645	6,916
Excess Investment Income	<u>7,468,356</u>	<u>13,515,279</u>	<u>10,778,624</u>
Sub Total	<u>7,469,800</u>	<u>13,519,076</u>	<u>10,790,340</u>
<b>Total Receipts, Net</b>	<u>\$19,111,974</u>	<u>\$24,743,663</u>	<u>\$21,197,757</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$382,817	\$164,379	\$270,591
Transfers to Other Systems	<u>104,098</u>	<u>279,420</u>	<u>46,131</u>
Sub Total	<u>486,915</u>	<u>443,799</u>	<u>316,722</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,863,577	1,706,701	1,573,303
Option B Refunds	<u>0</u>	<u>2,764</u>	<u>88,886</u>
Sub Total	<u>1,863,577</u>	<u>1,709,465</u>	<u>1,662,190</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	7,762,883	7,252,180	6,814,754
Survivorship Payments	459,666	456,055	456,183
Ordinary Disability Payments	58,583	71,978	74,316
Accidental Disability Payments	1,325,980	1,257,176	1,252,620
Accidental Death Payments	100,909	112,063	119,293
3 (B) (c) Reimbursements to Other Systems	<u>366,649</u>	<u>210,076</u>	<u>173,445</u>
Sub Total	<u>10,074,670</u>	<u>9,359,527</u>	<u>8,890,612</u>
<b>Expense Fund:</b>			
Board Member Stipend	6,000	5,980	6,000
Salaries	145,346	134,949	126,640
Legal Expenses	3,212	4,305	6,745
Medical Expenses	0	0	65
Travel Expenses	2,586	1,446	2,192
Administrative Expenses	33,558	35,993	36,574
Actuarial Services	14,000	0	16,500
Education and Training	1,647	2,823	1,870
Furniture and Equipment	1,012	470	1,238
Management Fees	594,708	568,544	480,953
Service Contracts	26,094	23,128	22,167
Fiduciary Insurance	<u>6,875</u>	<u>6,549</u>	<u>6,540</u>
Sub Total	<u>835,038</u>	<u>784,187</u>	<u>707,485</u>
<b>Total Disbursements</b>	<u><b>\$13,260,200</b></u>	<u><b>\$12,296,978</b></u>	<u><b>\$11,577,008</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
<b>Investment Income Received From:</b>			
Cash	\$0	\$0	\$0
Pooled or Mutual Funds	<u>3,162,677</u>	<u>2,957,493</u>	<u>2,874,532</u>
<b>Total Investment Income</b>	<u>3,162,677</u>	<u>2,957,493</u>	<u>2,874,532</u>
<b>Plus:</b>			
Realized Gains	5,004,514	4,752,088	2,328,845
Unrealized Gains	<u>7,202,416</u>	<u>12,315,814</u>	<u>12,169,956</u>
Sub Total	<u>12,206,931</u>	<u>17,067,901</u>	<u>14,498,801</u>
<b>Less:</b>			
Unrealized Loss	<u>(6,690,717)</u>	<u>(5,372,078)</u>	<u>(5,539,141)</u>
<b>Net Investment Income</b>	<u>8,678,890</u>	<u>14,653,317</u>	<u>11,834,192</u>
<b>Income Required:</b>			
Annuity Savings Fund	47,155	39,867	44,012
Annuity Reserve Fund	328,329	313,972	304,064
Military Service Fund	12	12	8
Expense Fund	<u>835,038</u>	<u>784,187</u>	<u>707,485</u>
<b>Total Income Required</b>	<u>1,210,534</u>	<u>1,138,038</u>	<u>1,055,568</u>
Net Investment Income	<u>8,678,890</u>	<u>14,653,317</u>	<u>11,834,192</u>
Less: Total Income Required	<u>1,210,534</u>	<u>1,138,038</u>	<u>1,055,568</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$7,468,356</u>	<u>\$13,515,279</u>	<u>\$10,778,624</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$581,769	0.5%
PRIT Cash Fund	335,092	0.3%
PRIT Core Fund	<u>114,181,243</u>	<u>99.2%</u>
<b>Grand Total</b>	<b><u>\$115,098,104</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2014, the rate of return for the investments of the Andover Retirement System was 8.13%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Andover Retirement System averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Andover Retirement System was 8.53%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Andover Retirement System voted on October 22, 2007 to invest all of the system's assets with the PRIT fund as of October 22, 2007. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Andover 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 104 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### 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 person who became a member before April 2, 2012 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.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## 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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### 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 \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), 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 while in the performance of his duties that results 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 \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, 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.

### 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 (COLA) 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%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 is has not remarried, 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### 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. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each 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.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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 Andover Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### Membership:

April 27, 2011

Any individual who is permanently employed twenty (20) or more hours per week by the Town of Andover, Andover Public Schools, the Andover Housing Authority or the Andover Retirement Board shall become a member of the Andover Retirement System ("System"). In addition to the foregoing, an individual or elected official must earn at least \$5,000 per year in regular compensation to be eligible for membership. Elected officials are not required to satisfy the 20 hour per week minimum criteria.

January 5, 2000

The Board voted to give members who are eligible to purchase active duty military service a choice of when to begin their military buyback, just as regular municipal make-ups are handled. PERAC's guidelines require the member to apply for permission to do the makeup within the 180-day window, but nothing in the law requires the member to begin payment at that time.

October 30, 1996

Retirement Board voted to accept Veterans buyback – Chapter 71 of the Acts of 1996, with the following stipulations: the buyback must be completed (paid in full) within 5 years, the minimum payment per week will be \$10, and no interest will be charged.

September 29, 1995

Retirement Board voted to place emergency fire/police signal operators to Group 2 (dispatchers).

#### Creditable Service:

October 14, 2009

### FURLOUGH AND/OR SALARY REDUCTION DUE TO BUDGET RESTRICTIONS

- Members in service of the Andover Contributory Retirement System shall receive a full year of creditable service for each calendar year in which the member receives regular compensation as an employee, provided that the employee is not removed from the payroll in excess of thirty (30) days in the aggregate, irrespective of whether those days are consecutive or not.
- Members in service of the Andover Contributory Retirement System who receive a reduction in compensation in lieu of or in addition to being furloughed for not less than 30 days shall have their retirement calculated based on the rate of regular compensation which was in effect immediately preceding the furlough or reduction in compensation.

Members in service of the Andover Contributory Retirement System who have their hours of employment reduced will be considered to be furloughed employees, and thus their regular compensation for the purpose of retirement will be calculated by using the rate of regular compensation in effect prior to the reduction in hours.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

October 31, 1972

Retirement Board voted to grant a full year of creditable service for each year of service performed by an employee working in a permanent part time position of 20 hours or more per week.

July 1, 1937

The Retirement Board does not accept liability for substitute service of any nature.

#### Regular Compensation:

July 18, 2006

Retirement Board voted not to take retirement deductions from the following payments (effective dates are noted, if applicable):

#### Andover Independent Employees Association (AIEA):

Effective immediately:

Tuition Reimbursement

Education Incentive (one time payments – not regular and recurring)

Effective 07/01/2007:

15% longevity increase for 26-week period

#### American Federation of State, County, and Municipal Employees (AFSCME):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 8-week period

#### Andover Public Safety Emergency Signal Operators/Communicators (Dispatchers):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 16-week period for members w/ 30 or more years service

15% longevity increase for 8-week period for member w/ less than 30 years service

#### Town of Andover Department Heads (Dept Heads):

Effective 07/01/2007:

15% longevity increase for 52-week period

#### International Association of Firefighters, Local 1658, AFL-CIO (Firefighter):

Effective 07/01/2007:

15% longevity increase for 52-week period

July 18, 2006

Retirement Board voted not to take retirement deductions from the following payments (effective dates are noted, if applicable) continued from previous page:

#### Andover Police Patrolmen's Union (APPO):

Effective 07/01/2007:

15% longevity increase for 52-week period

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Andover Police Superior Officers Association (Superior Officers):

Effective 07/01/2007:

15% longevity increase for 52-week period

September 30, 1997

Retirement Board voted to take retirement deductions from minutes takers salary (as long as it is not paid as overtime and the work is regular and recurring).

April 30, 1996

Retirement Board voted to take retirement deductions from employees doing fire alarm service.

June 29, 1995

Retirement Board voted not to take retirement deductions on sick days sold back at end of year.

#### Miscellaneous:

August 14, 2009

#### GROUP CLASSIFICATION

Full-time employees who serve as full-time public safety dispatchers for the Town of Andover are considered by the Retirement Board to be performing updated duties of Fire and Police Signal Operators, as listed in G.L. c. 32, § 3(2) (g) Group 2, provided that no member who attains age sixty-five (65) while classified in Group 1 may thereafter be classified in Group 2.

This Supplemental Local Rule re-affirms the Andover Retirement Board's prior determination that its public safety dispatchers are classified as members of Group 2 and re-affirms its prior decision and will perform all calculations based upon the timing of the creation of its prior policy.

December 17, 2007

Any documents held in the retirement office that are scheduled for destruction which contain confidential information (ie, SSN, date of birth, etc) will be shredded before discarding or recycling.

February 22, 2006

Monthly premiums for a retiree and/or survivor's health insurance will be deducted from his/her gross monthly retirement check automatically unless their monthly check does not cover the full premium for their health insurance, in which case, the person will be billed monthly.

February 23, 2001

The spouse of any married employee retiring under Mass General Laws chapter 32 must sign the acknowledgment of his or her retiring spouse's option choice in the presence of an Andover Contributory Retirement System Board member.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Travel Regulations:

August 27, 2003

The Andover Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Andover>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant/Assistant Finance Director 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: Theodora K. Moccia

Appointed Member: Thomas P. Hartwell                      Term Expires: 06/30/2017

Elected Member: Elena M. Kothman                      Term Expires: 11/04/2016

Elected Member: James A. Cuticchia, Chairman      Term Expires: 12/04/2017

Appointed Member: Anthony K. Stankiewicz, Esq.      Term Expires: 06/30/2017

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Segal Consulting as of January 1, 2014.

The actuarial liability for active members was	\$103,670,973
The actuarial liability for inactive members was	2,927,116
The actuarial liability for retired members was	<u>107,402,053</u>
The total actuarial liability was	\$214,000,142
System assets as of that date were (actuarial value)	<u>103,423,064</u>
The unfunded actuarial liability was	<u><u>\$110,577,078</u></u>
The ratio of system's assets to total actuarial liability was	48.3%
As of that date the total covered employee payroll was	\$36,488,870

The normal cost for employees on that date was 9.5% of payroll

The normal cost for the employer ( including administrative expenses ) was 4.5% of payroll

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

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by service and group

NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 6 - MEMBERSHIP EXHIBIT**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Retirement in Past Years</b>										
Superannuation	11	19	18	14	16	27	17	19	22	27
Ordinary Disability	1	0	0	0	0	0	0	1	0	0
Accidental Disability	5	0	0	0	2	2	2	2	2	2
<b>Total Retirements</b>	17	19	18	14	18	29	19	22	24	29
Total Retirees, Beneficiaries and Survivors	356 764	366	371	376	362	381	393	394	407	424
Total Active Members		771	756	747	679	677	706	729	734	711
<b>Pension Payments</b>										
Superannuation	\$3,824,774	\$4,075,576	\$4,520,162	\$5,070,574	\$5,412,685	\$5,974,591	\$6,409,730	\$6,814,754	\$7,252,180	\$7,762,883
Survivor/Beneficiary Payments	288,147	316,974	349,498	350,258	368,941	392,647	455,069	456,183	456,055	459,666
Ordinary Disability	87,184	94,349	95,315	96,279	84,862	84,965	74,420	74,316	71,978	58,583
Accidental Disability	850,198	944,411	901,831	910,975	956,926	1,018,417	1,130,337	1,252,620	1,257,176	1,325,980
Other	144,411	244,555	252,209	283,451	280,102	308,487	299,963	292,738	322,138	467,558
<b>Total Payments for Year</b>	<u>\$5,194,714</u>	<u>\$5,675,865</u>	<u>\$6,119,015</u>	<u>\$6,711,537</u>	<u>\$7,103,516</u>	<u>\$7,779,107</u>	<u>\$8,369,519</u>	<u>\$8,890,612</u>	<u>\$9,359,527</u>	<u>\$10,074,670</u>





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