

## REPORT OF THE CONTRIBUTORY RETIREMENT BOARD

This report covers the activities of this Board for the twelve-month period ending June 30, 2007. The financial records of the System are on a calendar year basis, so that all statements in this report are as of December 31, 2006.

The Board employs Meketa Investment Group Consulting to monitor the investment performance of all funds held by the Board and The Segal Group, Inc. to perform actuarial services for the System. It continues to employ Standish Mellon Asset Management as an investment advisor and it also employs State Street Global Advisors, The Boston Company, William Blair & Company to manage a portion of the equity investments of the System.

It also employs the Pension Reserves Investment Management Board to manage alternative investments for the System.

The Division of Public Employee Retirement Administration Commission of the Commonwealth has oversight responsibility for the 106 public retirement systems subject to the laws of the Commonwealth. Their report on the investment performance of those systems, issued as of December 31, 2006, shows that the Wellesley System had an annualized rate of return of 16.23 for 2006 and 12.23 for the twenty-one-year period that they have measured performance.

The Board engaged The Segal Group, Inc. to prepare an actuarial study of the System as of January 1, 2006. The assumptions used include an investment return of 8.0 percent, salary increases at the rate of 4 percent per year and inflation at the rate of 3 percent. Shown below is the unfunded actuarial liability of the Plan as of 1/1/06, 1/1/04 and 1/1/03.

		1/1/06	1/1/04	1/1/03
A.	Accrued Actuarial			
	Liability			
	- Active Members	\$53,532,629	\$45,439,531	\$46,228,747
	- Retired & Inactive Members	69,553,588	67,406,628	68,582,279
	Total Accrued			
	Actuarial Liability	<b>\$123,086,217</b>	<b>\$112,846,159</b>	<b>114,811,026</b>
B.	Assets			
	Net Assets	<b>\$127,011,492</b>	<b>\$116,792,365</b>	<b>\$119,033,662</b>
	(at actuarial value)			
C.	Unfunded (Overfunded)			
	Actuarial Liability	(3,925,275)	(\$3,946,206)	\$(4,222,636)
	Normal Cost for			
	Employee	2,312,688	1,881,232	1,863,619
	Normal Cost for			
	Employer	1,334,105	1,186,524	1,451,528

	Assumed Expenses	Administrative	175,000	150,000	175,000
--	---------------------	----------------	---------	---------	---------

The Board is pleased to report to the Town that the program started by the board and which was first supported by the 1978 Annual Town Meeting to fund the System is complete based on the current level of benefits. Due to the support of the Town and the excellent performance of the System's assets the program was completed in fifteen years. Based on the current funding status of the Fund, there is no required appropriation at this time.

### **Rates of Interest Credited on Members' Accounts**

As required by the statutes governing Retirement Systems (MGL Ch.32), interest on accumulated deductions arising from compensation on or after January 1, 1946 is based on the average rate paid by savings banks. That rate for 2006 was 0.6 percent, and for 2007 it is 0.6 percent.

### **Membership Information**

	<u># of Active Members</u>	<u># of Inactive Members</u>	<u># of Retiree Allowances</u>	<u># of Survivor Allowances</u>	<u>Total</u>
Membership - January 1, 2006	656	128	342	72	1198
Add:					
New Members	91				91
Deduct:					
Withdrawals & Transfers	(66)				(66)
Deaths					
Active	(1)			1	0
Retirees			(11)		(11)
Survivors				(5)	(5)
Active Members					
Retired	(9)	(1)	10	1	1
Inactive	(50)	50			
<b>TOTAL</b>	<b>621</b>	<b>177</b>	<b>341</b>	<b>69</b>	<b>1208</b>

The Board recorded the following deaths during the year 2006:

Members:

Janice Demetrius
------------------

Retirees & Beneficiaries:

Dexter Bolles	Brycie Kavanaugh
Ruth Bolles	Irene Kent
Edward Conlon	Turney McKeen
Kenneth Damon	Lucille McMahan
Hilda DeRosier	Patricia Moran
William C. Donovan	George Nelson Sr.
Daniel Ewing	Amelia Reed
James Fitzpatrick	Marguerite Reiss
Rita Goodwin	Barbara Scotton
Peter Innes	Mary Jane Seery

Those members retired during the year 2006 were:

Dana Cotto-School	Patricia Mitchell-School
Olive Dixon-DPW	C. Ann Nickles-School
Margaret Gerace-DPW	Barbara Rowbotham-Library
Peter Keenan-NRC	Richard Smith-School
Richard McCarthy-Selectmen	Bruce Thomas-MLP

**Administration of the Non-Contributory System**

The Board continues to administer benefits under the Non-Contributory Retirement System applicable to certain employees who were employed on July 1, 1937 by the Town, and to certain veterans. As of December 31, 2006, three retirees and one beneficiary were receiving allowances at an aggregate yearly rate of \$71,440 compared to \$79,707 as of December 31, 2005. These allowances are paid from a separate appropriation voted each year by the Town.

During the year, one retiree, Felix Juliani died

**Administration of Retiree Healthcare Benefits**

Article 25 – 2003 Annual Town Meeting established a Group Insurance Liability Trust Fund under the supervision and management of the Retirement Board. The Town voted to appropriate funds in fiscal 2007 and voted an OPEB (Other Post Employment Benefits) Exclusion beginning in fiscal 2008. The Retirement Board approved the recommendation of Meketa Investment Group to invest the OPEB assets in the Vanguard STAR mutual fund (ticker – VGSTX). The Vanguard STAR Mutual Fund is a fund of funds with allocations to equities of 60 to 70%, bonds of 20 to 30%, and short-term investments of 10 to 20%.

### **Future Plans**

The Retirement Board had begun discussion on its current progress and future objectives of the System's funds. It is analyzing transferring its investments to PRIM (the Massachusetts Pensions Reserves Investment Management Board) as the sole asset manager.

The Board recognizes the capabilities that PRIM will afford Wellesley significantly better governance, diversification opportunities and access to resources with slightly higher expected returns and a modest to no increase in risk. It would offer an exposure to a modern portfolio (not unlike an endowment) with hedge funds, high yield bonds, natural resources and portable alpha.

Respectfully submitted,  
RETIREMENT BOARD  
David N. Kornwitz, Chairman  
Richard C. Gerard, Vice Chairman  
Sheryl Strother  
Derek B. Knight  
Joan H. Donahue

**WELLESLEY RETIREMENT SYSTEM**

**Table 1 (a)**

**Income and Disbursements for the year ending  
December 31, 2006  
(with comparative amounts for 2005)**

**Income**

	<b>2006</b>	<b>2005</b>
Contributions from Members	\$2,531,587	\$2,630,340
Appropriation by Town Including Housing Authority)		
Funding Appropriation	0.00	0.00
Expense Fund	0.00	0.00
Pension Reimbursement from:		
Other Systems	132,550	126,217
Comm of Mass for Cost of Living Payment	252,531	110,209
Other	0.00	1,756
Grants & Other Accounts	36,028	36,251
Interest on Investments	4,306,352	1,796,719
Interest Not Refunded	2,969	6,769
Profit on Sale of Investments	4,512,651	2,281,052
Increase in Market Value of Equities	<u>18,623,250</u>	<u>10,923,496</u>
<b>TOTAL INCOME</b>	<b>30,397,918</b>	<b>17,912,809</b>

**Disbursements**

Payments on account of:		
Superannuation Allowance	\$5,283,196	\$5,313,897
Disability Allowance	829,675	740,061
Survivor Benefits	684,711	670,536
Annuity Payments	<u>1,127,881</u>	<u>1,119,698</u>
<b>SUBTOTAL</b>	<b>7,925,463</b>	<b>7,844,192</b>
Pension Reimbursements to Other Systems	180,410	154,836
Refunds on Account of Member Withdrawing or Transferring	583,630	724,702
Administrative Expenses	822,563	752,776
Loss on Sale of Investments	4,367,392	3,303,931
Decrease in Market Value of Equities	<u>3,155,181</u>	<u>2,688,007</u>
<b>TOTAL DISBURSEMENTS</b>	<b>17,034,639</b>	<b>15,468,444</b>

**Assets**

Income Less Disbursements	13,363,279	2,444,365
Assets Beginning of Period	<u>\$127,011,492</u>	<u>\$124,567,127</u>
<b>ASSETS END OF PERIOD</b>	<b>\$140,374,772</b>	<b>\$127,011,492</b>

**WELLESLEY RETIREMENT SYSTEM****Table 1 (b)****Assets & Liabilities as of December 31, 2006****(with comparative amounts for 2005)**

	<u>2006</u>	<u>2005</u>
<b><u>Assets/Liabilities</u></b>		
Market Value of Equities	\$94,872,731	\$106,493,534
Fixed Income Securities (1)	56,241,035	25,411,580
Cash	3,061,074	834,286
Interest Due & Accrued	83,316	(560,558)
Short Term Investments	1,836,433	0.00
Alternative Investments	1,853,069	509,975
Accounts Receivable	3,656,138	2,458,717
Accounts Payable	(21,229,024)	(8,136,042)
<b>TOTAL ASSETS/LIABILITIES</b>	<b>\$140,374,772</b>	<b>\$127,011,492</b>

**Fund Balances**

Annuity Savings Fund	22,187,586	\$20,761,405
Annuity Reserve Fund	7,599,773	7,857,228
Pension Fund	9,848,660	8,713,586
Pension Reserve Fund	100,732,151	89,672,710
Special Fund for Military Service Credit	6,602	6,563
Expense Fund	<u>0.00</u>	<u>0.00</u>
<b>TOTAL FUND BALANCE</b>	<b>\$140,374,772</b>	<b>\$127,011,492</b>

**(1) Market Value**

**Annuity Savings Fund** consists of the accumulated contributions of present active and inactive members.

**Annuity Reserve Fund** is the fund out of which that portion of benefits paid to retirees is paid, based on their contributions.

**Pension Fund** is the fund out of which the balance of benefits is paid to retirees.

**Pension Reserve Fund** is the fund that is credited with funds to cover future pension costs.