

# PERAC AUDIT REPORT



Cambridge  
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2009



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

May 10, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Cambridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2009. 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 Cambridge Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Ryan, Carol Niemira, and John Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,		
	2009	2008
<b>Net Assets Available For Benefits:</b>		
Cash	\$9,730,006	\$15,648,775
Short Term Investments	3,063,602	0
Fixed Income Securities	74,653,855	59,730,400
Equities	155,002,077	164,443,661
Pooled Domestic Equity Funds	126,258,908	36,684,035
Pooled International Equity Funds	109,012,334	73,528,054
Pooled Domestic Fixed Income Funds	55,175,616	56,033,827
Pooled International Fixed Income Funds	25,897,143	23,587,927
Pooled Alternative Investment Funds	18,645,605	60,208,933
Pooled Real Estate Funds	46,907,485	70,087,128
Hedge Funds	48,687,537	0
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	1,177,182	1,190,543
Prepaid Expenses	0	0
Accounts Receivable	8,325,250	9,160,840
Premises and Equipment, Net	0	0
Accounts Payable	(1,207,076)	(1,882,285)
<b>Total</b>	<b><u>\$681,329,524</u></b>	<b><u>\$568,421,838</u></b>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$206,554,551	\$197,490,101
Annuity Reserve Fund	48,428,129	43,580,508
Pension Fund	17,217,834	26,701,775
Military Service Fund	5,865	5,836
Expense Fund	0	0
Pension Reserve Fund	409,123,145	300,643,619
<b>Total</b>	<b><u>\$681,329,524</u></b>	<b><u>\$568,421,838</u></b>

## 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 (2008)	\$181,273,186	\$43,376,398	\$34,819,935	\$5,807	\$0	\$532,846,534	\$792,321,860
Receipts	24,841,812	1,293,739	28,796,927	29	5,071,083	(232,243,519)	(172,239,930)
Interfund Transfers	(5,231,923)	5,191,319	0	0	0	40,604	0
Disbursements	(3,392,975)	(6,280,947)	(36,915,087)	0	(5,071,083)	0	(51,660,092)
Ending Balance (2008)	197,490,101	43,580,508	26,701,775	5,836	0	300,643,619	568,421,838
Receipts	22,602,221	1,350,601	29,645,464	29	4,394,062	108,566,149	166,558,527
Interfund Transfers	(10,198,694)	10,285,317	0	0	0	(86,623)	0
Disbursements	(3,339,077)	(6,788,297)	(39,129,405)	0	(4,394,062)	0	(53,650,841)
Ending Balance (2009)	<u>\$206,554,551</u>	<u>\$48,428,129</u>	<u>\$17,217,834</u>	<u>\$5,865</u>	<u>\$0</u>	<u>\$409,123,145</u>	<u>\$681,329,524</u>

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008
<b>Annuity Savings Fund:</b>		
Members Deductions	\$21,042,701	\$20,848,419
Transfers from Other Systems	349,077	978,154
Member Make Up Payments and Re-deposits	74,977	1,607,946
Member Payments from Rollovers	178,150	343,718
Investment Income Credited to Member Accounts	<u>957,315</u>	<u>1,063,575</u>
Sub Total	<u>22,602,221</u>	<u>24,841,812</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>1,350,601</u>	<u>1,293,739</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	826,562	763,869
Pension Fund Appropriation	1,079,192	1,137,125
Pension Fund Appropriation	27,727,711	26,895,933
Settlement of Workers' Compensation Claims	<u>12,000</u>	<u>0</u>
Sub Total	<u>29,645,464</u>	<u>28,796,927</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>29</u>	<u>29</u>
Sub Total	<u>29</u>	<u>29</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>4,394,062</u>	<u>5,071,083</u>
Sub Total	<u>4,394,062</u>	<u>5,071,083</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	0	0
Pension Reserve Appropriation	0	0
Interest Not Refunded	55,574	53,183
Miscellaneous Income	73,493	144,693
Excess Investment Income (Loss)	<u>108,437,083</u>	<u>(232,441,396)</u>
Sub Total	<u>108,566,149</u>	<u>(232,243,519)</u>
<b>Total Receipts, Net</b>	<u>\$166,558,527</u>	<u>(\$172,239,930)</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$2,893,338	\$2,581,235
Transfers to Other Systems	<u>445,738</u>	<u>811,740</u>
Sub Total	<u>3,339,077</u>	<u>3,392,975</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	6,710,812	6,165,446
Option B Refunds	<u>77,485</u>	<u>115,502</u>
Sub Total	<u>6,788,297</u>	<u>6,280,947</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	24,868,915	23,266,258
Survivorship Payments	2,537,744	2,371,186
Ordinary Disability Payments	669,484	585,887
Accidental Disability Payments	7,292,762	7,022,382
Accidental Death Payments	2,516,108	2,555,276
Section 101 Benefits	303,658	290,415
3 (8) (c) Reimbursements to Other Systems	940,735	823,682
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>39,129,405</u>	<u>36,915,087</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	15,250	16,500
Salaries	495,587	471,166
Legal Expenses	48,234	46,729
Medical Expenses	766	63
Travel Expenses	12,741	29,246
Administrative Expenses	38,202	76,797
Professional Services	20,000	0
Education and Training	6,310	0
Furniture and Equipment	5,040	10,698
Management Fees	3,222,700	3,805,509
Custodial Fees	227,932	270,945
Consultant Fees	137,750	135,500
Rent Expenses	105,992	105,992
Service Contracts	9,415	54,333
Fiduciary Insurance	48,144	47,605
Depreciation	<u>0</u>	<u>0</u>
Sub Total	<u>4,394,062</u>	<u>5,071,083</u>
<b>Total Disbursements</b>	<u><b>\$53,650,841</b></u>	<u><b>\$51,660,092</b></u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008
<b>Investment Income Received From:</b>		
Cash	\$29,811	\$417,934
Short Term Investments	1,858	215
Fixed Income	5,528,255	5,298,204
Equities	3,062,049	3,646,732
Pooled or Mutual Funds	4,331,231	5,479,918
Commission Recapture	<u>253,909</u>	<u>671,798</u>
<b>Total Investment Income</b>	<u>13,207,114</u>	<u>15,514,801</u>
<b>Plus:</b>		
Realized Gains	26,405,001	16,268,155
Unrealized Gains	140,926,227	19,639,667
Interest Due and Accrued - Current Year	<u>1,177,182</u>	<u>1,190,543</u>
Sub Total	<u>168,508,410</u>	<u>37,098,365</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	(407,482)	(543,225)
Realized Loss	(26,952,161)	(89,881,554)
Unrealized Loss	(38,026,247)	(186,091,620)
Interest Due and Accrued - Prior Year	<u>(1,190,543)</u>	<u>(1,109,736)</u>
Sub Total	<u>(66,576,434)</u>	<u>(277,626,135)</u>
<b>Net Investment Income (Loss)</b>	<u>115,139,091</u>	<u>(225,012,970)</u>
<b>Income Required:</b>		
Annuity Savings Fund	957,315	1,063,575
Annuity Reserve Fund	1,350,601	1,293,739
Military Service Fund	29	29
Expense Fund	<u>4,394,062</u>	<u>5,071,083</u>
<b>Total Income Required</b>	<u>6,702,008</u>	<u>7,428,426</u>
Net Investment Income (Loss)	<u>115,139,091</u>	<u>(225,012,970)</u>
Less: Total Income Required	<u>6,702,008</u>	<u>7,428,426</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$108,437,083</u>	<u>(\$232,441,396)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$9,730,006	1.4%
Short Term	3,063,602	0.5%
Fixed Income	74,653,855	11.1%
Equities	155,002,077	23.0%
Pooled Domestic Equity Funds	126,258,908	18.8%
Pooled International Equity Funds	109,012,334	16.2%
Pooled Domestic Fixed Income Funds	55,175,616	8.2%
Pooled International Fixed Income Funds	25,897,143	3.8%
Pooled Alternative Investment Funds	18,645,605	2.8%
Pooled Real Estate Funds	46,907,485	7.0%
Hedge Funds	48,687,537	7.2%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
<b>Grand Total</b>	<b>\$673,034,168</b>	<b>100.0%</b>

For the year ending December 31, 2009, the rate of return for the investments of the Cambridge Retirement System was 20.45%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Cambridge Retirement System averaged 3.16%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Cambridge Retirement System was 9.25%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

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

September 16, 2010

19.01(8)

The Cambridge Retirement Board is authorized to increase its maximum permitted allocation to alternative investments from 5% to 7.5%. Analysis by the Board's investment consultant indicated that this adjustment would enhance the ability of the Board to meet its 8.25% actuarial assumption in a diversified and prudent manner. It is noted that the Board's definition of alternative investments includes value-added real estate and timber.

August 11, 2009

16.08

The Cambridge Retirement Board is authorized to invest in the State Street Global Advisors Russell 1000 Growth Index Fund on a temporary basis. The Board has terminated its incumbent large cap growth manager for performance reasons and will commence a competitive search process for a permanent replacement manager. Pending the completion of that search, the Board's consultant has determined that the SSgA index fund is the most appropriate and cost-effective means to maintain the board's asset allocation during the search. The Board has existing, satisfactory relationships with SSgA index funds. This authorization will extend through December 15, 2009.

August 4, 2009

16.08

The Cambridge Retirement Board is authorized to invest in Hancock Timberland X, L.P. The Board and its investment consultant see this as a follow-on investment to the Board's existing investment in the Hancock Timber ForesTree V Fund. The Board has been a satisfied investor in that fund, which has essentially the same management team and investment strategy as Hancock Timberland X. About 90% of the Board's invested assets in ForesTree V have been returned to date. The manager has submitted the required updated regulatory documents.

April 14, 2008

16.08

In accordance with Investment Guideline 99-3, the Cambridge Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent Venture Partners IV. The management team and strategy are unchanged and Ascent Venture Partners has submitted an updated Exemption Application.

January 2, 2008

21.01(2)

Pyramis Global Advisors' Large Cap Core 130/30 Fund follows a strategy permits the portfolio manager to execute short sales up to an amount equal to 30% of the account's net market value and to purchase additional securities with the proceeds of the short sales. Total exposure relative to the benchmark will be no more that 1.00. This authorizes the manager to make these short sales.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 28, 2005

19.01(6)

Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the Cambridge Retirement Board may invest funds of the Cambridge Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder.

The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

April 7, 2005

16.08

The Cambridge Retirement Board is authorized to modify the structure of its mid cap growth equity mandate with Loomis Sayles & Company from a commingled fund to a separately managed account. This change was necessitated by Loomis Sayles' decision to terminate the commingled fund. The portfolio management team and investment strategy remain the same.

July 27, 2004

16.08

In accordance with Investment Guideline 99-3, the Cambridge Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in the two predecessor partnerships, Ascent Venture Partners II and Ascent Venture Partners III, and seeks to maintain its asset allocation to venture capital by investing in Ascent Venture Partners IV.

March 12, 2001

16.08

Having voted to terminate the large-cap value equity portfolio managed by Freedom Capital Management Corporation, the Cambridge Retirement Board is authorized to invest in the State Street Global Advisors large cap value index fund as a temporary measure to maintain the system's asset allocation pending completion of a formal search process for a permanent replacement manager. The Board has an existing relationship with SSgA, leader in institutional index funds.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Cambridge 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 105 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

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

#### ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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 \$729.84 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 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 resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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 for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

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 retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the 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 Cambridge Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 21, 2000

#### Regular Compensation

##### Motor Vehicle Use

A member who is provided a motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 form. Said regular compensation shall be approved upon payment of appropriate retirement contribution by the member.

A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 form, shall be credited annually with the additional regular compensation in the amount of said allowance upon payment of appropriate retirement contribution by the member.

Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

May 18, 1998

#### Group Classification

Any employee of the Emergency Telecommunications Department holding the title with job description of the following: "Emergency Telecommunications Dispatcher" and "Fire Alarm Operator" replaces the positions of "fire or police signal operators or signal maintenance repairman," as stated in Chapter 32, s. 3(2)(G), Group 2.

October 29, 1996

#### Creditable Service

Any permanent employee of the Cambridge School Department who is not a certified teacher and therefore eligible to apply for membership in the Retirement System will be given credit for a full year of creditable service if they are employed full time for the job they perform if the job only occurs during the school year.

Permanent full-time employment in the School System would be the maximum number of hours that are assigned to the job function so long as the number equals 20 hours per week. The creditable service will accrue as full-time so long as the member continues in that category (position) to retirement.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Membership

Permanent part-time employment will be any employee who is employed at least twenty (20) hours per week in a position or in more than one position so that when hours of employment are added together those hours equal at least twenty (20) hours per week.

#### Membership/CETA Employees

CETA employees and Grant funded employees shall become members of the retirement system. If these employees later become employed by the City, they will be allowed to make payment toward creditable service for the time they worked under such programs.

#### Membership

All non-compensated appointed officials, whether members of board or commissions and the like who do not receive regular compensation as set forth under Chapter 32 are not eligible for membership in the Retirement System.

All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week may join the Cambridge Retirement System. They shall only be credited with one (1) year of creditable service for every three (3) years of service rendered in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

#### Creditable Service

Creditable service for all part-time, provisional, temporary, temporary provisional, per diem, seasonal or intermittent employment and/or service shall be computed to credit the member for that proportion of a normal year which the number of days actually worked during that year bears to the normal working year from the department under which the employee works.

Creditable service for all part-time salaried employees will be pro-rated on the basis of the proportion which the actual salary received bears to what the salary would be for the same position if it were full-time.

March 7, 1989

#### Regular Compensation

Regular compensation for firefighters shall include:

1. regular base pay
2. working out of grade
3. holiday pay only as authorized by law
4. hazardous duty pay or educational incentive
5. longevity
6. weekend differential
7. night differential
8. E.M.T. compensation
9. 1st responder compensation



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2010.

The actuarial liability for active members was	\$506,437,567
The actuarial liability for retired and inactive members was	443,470,172
The total actuarial liability was	949,907,739
System assets as of that date were	796,015,770
The unfunded actuarial liability was	<u>\$153,891,969</u>
The ratio of system's assets to total actuarial liability was	83.8%
As of that date the total covered employee payroll was	\$232,842,117

The normal cost for employees on that date was 9.24% of payroll  
 The normal cost for the employer was (including administrative expenses) 4.14% of payroll

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

Investment Return: 8.25% per annum  
 Rate of Salary Increase: 5.00% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2010	\$796,015,770	\$949,907,739	\$153,891,969	83.8%	\$232,842,117	66.1%
1/1/2008	\$766,030,562	\$833,034,229	\$67,003,667	92.0%	\$231,770,736	28.9%
1/1/2006	\$632,059,327	\$740,320,358	\$108,261,031	85.4%	\$201,087,686	53.8%
1/1/2004	\$569,500,055	\$655,106,691	\$85,606,636	86.9%	\$184,254,181	46.5%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	69	70	114	92	55	56	54	61	53	93
Ordinary Disability	3	0	1	1	2	0	1	2	3	5
Accidental Disability	9	6	7	15	9	5	10	6	8	7
<b>Total Retirements</b>	81	76	122	108	66	61	65	69	64	105
Total Retirees, Beneficiaries and Survivors	1,723	1,660	1,717	1,735	1,736	1,730	1,734	1,754	1,762	1,786
Total Active Members	5,300	5,535	6,215	6,225	6,152	6,266	6,427	6,643	6,643	6,577
<b>Pension Payments</b>										
Superannuation	\$14,615,170	\$15,630,948	\$15,864,486	\$18,411,178	\$19,448,238	\$20,347,855	\$21,237,005	\$22,389,449	\$23,266,258	\$24,868,915
Survivor/Beneficiary Payments	1,421,065	1,844,630	1,664,021	1,763,638	1,926,321	2,094,339	2,136,696	2,276,614	2,371,186	2,537,744
Ordinary Disability	535,578	565,863	549,829	540,571	521,570	517,168	508,069	564,391	585,887	669,487
Accidental Disability	5,667,506	5,562,350	5,663,249	5,845,127	6,511,419	6,642,373	7,610,691	6,928,068	7,022,382	7,292,762
Other	2,479,382	2,313,716	2,854,300	2,926,608	3,263,647	3,361,907	3,393,837	3,497,693	3,669,374	3,760,498
<b>Total Payments for Year</b>	<u>\$24,718,701</u>	<u>\$25,917,507</u>	<u>\$26,595,885</u>	<u>\$29,487,122</u>	<u>\$31,671,195</u>	<u>\$32,963,642</u>	<u>\$34,886,298</u>	<u>\$35,656,215</u>	<u>\$36,915,087</u>	<u>\$39,129,405</u>

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