PERAC AUDIT REPORT

Lawrence
Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

February 21, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Lawrence Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Appropriation Funding

The current period appropriation was underpaid by the City. The amount agreed to in the funding schedule was reduced by payments from Federal Grants relating to prior fiscal years. Funds received from Federal Grants can be applied to an appropriation schedule. However, these should be limited to payments that correspond to the same fiscal period. The PERAC Actuary issues a letter confirming the current period appropriation. The assessment is set in consultation with the Retirement Board. The city cannot adjust their funding commitment based on their priorities. It reflects poorly when adjustments of this magnitude are initiated without prior notification to the Retirement Board.

Recommendation: The Board must take all available steps to ensure that the City will satisfy its obligation within the established funding schedule. Federal grant payments for prior fiscal periods must not be offset against the appropriation. The failure of any unit employer in the System to satisfy its obligations can result in legal action for recovery by contract as noted in G.L. c. 32, § 22 (7) (d).

Board Response:

The Board has sent communication to the city's Budget & Finance Director via e-mail and has had three meetings to discuss the federal grant discrepancy in the amount of $ 263,413.89. The Board's Attorney, Michael Sacco has sent a written demand letter to the City requesting payment be made by December 31, 2013. The Board will forward any information they receive when a resolution is made.

2. Regular Compensation

The auditor sampled payrolls from all employer units to determine that members' rate, base deductions, and 2% additional deductions were accurate. We reviewed a list of pay types that indicated whether they were used in the determination of base regular compensation used for retirement contributions.

- We observed that an employer unit had included a pay code clearly labeled as "overtime" and classified the pay type as qualified for retirement. Payroll disbursed between November 2012 and June 2013 was included in this oversight.

As a result, refunds must be calculated and returned for current year contributions deducted in error. These can be adjusted through the payroll application. Prior year contributions must be refunded and are subject to the rules governing taxable distributions from qualified retirement plans.

Recommendation: The system should insist that all employer units advise the Lawrence Retirement Board of all new payroll codes initiated by the unit payroll officers. The Retirement Board must be the ultimate authority to determine compensation that qualifies for retirement contributions subject to and within the guidelines prescribed in 840 CMR 15.03. A complete payroll register should be obtained from selected member units to monitor and confirm compliance on a regular basis. This function will provide an additional layer of internal financial control to confirm that contributions are accurate and benefits are earned within the established rules.

Board Response:

Once discovered we worked directly with the unit's payroll clerk to fix the wrongly labeled code. We also took the advice of Mr. Tivnan and went through each code being used by this unit to assure they were properly coded for retirement withholdings. In September the payroll clerk was able to identify the 8 individuals of which retirement was incorrectly withheld. The money was returned to them and any rules regarding taxable distributions were applied. Our office also sent out an email to payroll personnel in all of our governing units outlining the definition of regular compensation. This e-mail instructed all payroll personnel to contact the retirement office when setting up a new payroll code as well as anytime they have questions regarding a pay type. We will continue to monitor and confirm compliance on a regular basis.

3. Retirement Benefits

The auditor inspected the content of the retirement files approved during the audit period. This procedure is designed to confirm that adequate documentation is collected to support the election made by the retiree and that they are receiving the correct benefit of which they are entitled to under the statute. The system does not have the authority to recalculate benefits previously approved by PERAC.

- We observed two retirees whose benefit had been revised after receiving the approval letter issued by PERAC. The system does not possess a waiver from PERAC pertaining to the calculation of Superannuation benefits for retirees. The system does not have the authority to recalculate benefits previously approved by PERAC without notification.

Recommendation: The system must resubmit the revised benefit allowance for any retiree when the circumstances dictate. PERAC will issue an updated approval letter.

Board Response:

The process for the majority of retirements is to contact the payroll department which the potential retiree is separating from to get their final close out figures. When verification is obtained indicating the individual has been paid in full their final wages, then their retirement account is finalized and sent in to PERAC along with copies of their annuity savings record and the anti-spiking worksheet. PERAC then issues approval letters. The two retirees that had been revised were given additional wages months after they retired, due to an oversight in payroll. It was for furlough money not originally calculated when their city benefits packages were paid. In the future, any retiree with an ending balance in their annuity savings account due to payments received after their original retirement approval will be recalculated and sent to PERAC for an updated approval letter.

FINAL DETERMINATION:

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

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2012	2011	2010
Net Assets Available For Benefits:			
Cash	$9,134,615	$4,685,488	$1,471,086
PRIT Cash Fund	800,283	650,190	5,600,645
PRIT Core Fund	137,788,108	126,570,231	126,745,567
Prepaid Expenses	6,617	6,617	6,300
Accounts Receivable	1,326,194	1,333,800	316,462
Accounts Payable	(876,936)	(671,579)	(652,946)
Total	$148,178,880	$132,574,747	$133,487,114
Fund Balances:			
Annuity Savings Fund	$57,349,439	$55,483,607	$53,240,293
Annuity Reserve Fund	17,375,369	17,196,615	17,279,458
Pension Fund	1,838,237	0	131,711
Military Service Fund	5,255	5,250	5,239
Expense Fund	0	0	0
Pension Reserve Fund	71,610,580	59,889,275	62,830,412
Total	$148,178,880	$132,574,747	$133,487,114

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 (2010)	$53,233,574	$16,101,587	$2,459,093	$5,223	$0	$48,492,619	$120,292,096
Receipts	5,627,762	495,943	15,741,656	16	919,518	14,314,397	37,099,291
Interfund Transfers	(3,250,694)	3,221,878	5,419	0	0	23,396	(0)
Disbursements	(2,370,349)	(2,539,950)	(18,074,457)	0	(919,518)	0	(23,904,274)
Ending Balance (2010)	53,240,293	17,279,458	131,711	5,239	0	62,830,412	133,487,114
Receipts	6,055,673	509,019	16,124,548	10	1,015,347	(451,634)	23,252,963
Interfund Transfers	(2,236,471)	2,186,943	2,539,030	0	0	(2,489,502)	0
Disbursements	(1,575,888)	(2,778,805)	(18,795,289)	0	(1,015,347)	0	(24,165,330)
Ending Balance (2011)	55,483,607	17,196,615	(0)	5,250	0	59,889,275	132,574,747
Receipts	6,059,275	512,744	16,508,417	5	1,126,287	16,549,036	40,755,764
Interfund Transfers	(2,866,354)	2,744,917	4,949,168	0	0	(4,827,731)	0
Disbursements	(1,327,089)	(3,078,907)	(19,619,348)	0	(1,126,287)	0	(25,151,631)
Ending Balance (2012)	$57,349,439	$17,375,369	$1,838,237	$5,255	$0	$71,610,580	$148,178,880

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$5,468,203	$5,181,213	$5,296,871
Transfers from Other Systems	481,900	636,584	113,954
Member Make Up Payments and Re-deposits	32,354	119,428	58,271
Investment Income Credited to Member Accounts	76,818	118,449	158,666
Sub Total	6,059,275	6,055,673	5,627,762
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	512,744	509,019	495,943
Sub Total	512,744	509,019	495,943
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	147,768	150,751	148,023
Received from Commonwealth for COLA and Survivor Benefits	489,690	548,051	592,078
Pension Fund Appropriation	15,849,195	15,415,745	15,001,555
Settlement of Workers' Compensation Claims	10,000	10,000	0
Recovery of 91A Overearnings	11,764	0	0
Sub Total	16,508,417	16,124,548	15,741,656
Military Service Fund:			
Investment Income Credited to the Military Service Fund	5	10	16
Sub Total	5	10	16
Expense Fund:			
Investment Income Credited to the Expense Fund	1,126,287	1,015,347	919,518
Sub Total	1,126,287	1,015,347	919,518
Pension Reserve Fund:			
Federal Grant Reimbursement	762,864	665,643	629,923
Interest Not Refunded	5,733	6,196	4,585
Miscellaneous Income	649	149	548
Excess Investment Income (Loss)	15,779,790	(1,123,622)	13,679,341
Sub Total	16,549,036	(451,634)	14,314,397
Total Receipts, Net	$40,755,764	$23,252,963	$37,099,291

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$638,606	$688,169	$1,097,925
Transfers to Other Systems	688,483	887,719	1,272,424
Sub Total	1,327,089	1,575,888	2,370,349
Annuity Reserve Fund:			
Annuities Paid	2,774,325	2,624,222	2,478,381
Option B Refunds	304,582	154,584	61,569
Sub Total	3,078,907	2,778,805	2,539,950
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	12,282,529	11,797,882	11,280,081
Survivorship Payments	1,015,239	984,449	998,965
Ordinary Disability Payments	47,689	46,341	54,794
Accidental Disability Payments	4,007,201	3,919,434	3,827,659
Accidental Death Payments	1,260,220	1,215,453	1,153,593
Section 101 Benefits	135,849	168,833	110,111
3 (8) (c) Reimbursements to Other Systems	870,619	662,898	649,254
Sub Total	19,619,348	18,795,289	18,074,457
Expense Fund:			
Board Member Stipend	15,000	15,000	14,500
Salaries	192,783	189,623	189,357
Legal Expenses	46,051	36,870	21,003
Travel Expenses	3,383	1,449	3,400
Administrative Expenses	61,539	47,106	58,511
Professional Services	20,000	8,050	20,650
Education and Training	1,650	270	1,800
Furniture and Equipment	0	486	0
Management Fees	707,129	640,288	535,893
Rent Expenses	38,774	36,927	35,169
Service Contracts	24,579	24,374	24,899
Fiduciary Insurance	15,399	14,904	14,335
Sub Total	1,126,287	1,015,347	919,518
Total Disbursements	$25,151,631	$24,165,330	$23,904,274

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Investment Income Received From:			
Cash	$2,810	$3,369	$3,193
Equities	20,560	1,405	25,952
Pooled or Mutual Funds	4,237,345	3,900,277	3,271,993
Total Investment Income	4,260,715	3,905,052	3,301,138
Plus:			
Realized Gains	3,443,879	3,995,245	3,046,033
Unrealized Gains	18,045,477	12,623,898	22,500,346
Sub Total	21,489,357	16,619,143	25,546,379
Less:			
Realized Loss	0	(71,921)	(100,507)
Unrealized Loss	(8,254,427)	(19,933,071)	(13,493,528)
Sub Total	(8,254,427)	(20,004,992)	(13,594,034)
Net Investment Income	17,495,644	519,203	15,253,483
Income Required:			
Annuity Savings Fund	76,818	118,449	158,666
Annuity Reserve Fund	512,744	509,019	495,943
Military Service Fund	5	10	16
Expense Fund	1,126,287	1,015,347	919,518
Total Income Required	1,715,854	1,642,825	1,574,142
Net Investment Income	17,495,644	519,203	15,253,483
Less: Total Income Required	1,715,854	1,642,825	1,574,142
Excess Income (Loss) To The Pension Reserve Fund	$15,779,790	($1,123,622)	$13,679,341

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$9,134,615	6.2%
PRIT Cash Fund	800,283	0.5%
PRIT Core Fund	137,788,108	93.3%
Grand Total	$147,723,005	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Lawrence Retirement System was 13.79%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Lawrence Retirement System averaged 1.55%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lawrence Retirement System was 7.66%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Lawrence Retirement System voted to invest all of the system's assets with the PRIT fund. As a result of that motion, all supplemental investment regulations were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lawrence 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.

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 hired prior to 1978, or if classified in Group 4.

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. 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 for members who retire after April 2, 2012 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

• 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. Group 4 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.

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, § 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 employees classified in Group 4 who are subject to mandatory retirement.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 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 is 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 $774.36 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 $774.36 per year, per child (or $312 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. 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.

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, the age 60 benefit rate is used. If the member died after age 60, the actual age 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 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.

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 (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%. The first $12,000 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, § 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. Presently that amount is $12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

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 unmarried at the time of retirement 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" 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.

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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.

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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Creditable Service:
May 17, 2011

Members of the Lawrence Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lawrence Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lawrence Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the Lawrence Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and pro-rated credit for part-time service based on the full-time equivalency of 35 hours per week.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 30th including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part time capacity shall have their creditable service prorated in the same manner as all members of the Lawrence Retirement System as set forth in this regulation.
- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.
- Members who previously rendered service in a member unit of the Lawrence Retirement System and who were not previously eligible to participate in the Lawrence Retirement System, shall be eligible to purchase such past non-membership service rendered, in monthly increments, consistent with the provisions of M.G.L. c. 32, §4(2)(b). Creditable service shall

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

be granted and calculated for non-membership service based on 170 hours being the equivalent of one (1) month of creditable service.

July 25, 2007
For members who purchase such past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee, creditable service shall be calculated based on 1040 hours of compensated employment in the aggregate being the equivalent of one (1) year of creditable service. Members shall be credited with full months and full years of past service rendered and purchased.

Any member who received remuneration or payment in the form of cash for services rendered will not be considered an employee and will be precluded from purchasing any such past service rendered. The Board does not permit the purchase of past service rendered as a coach, assistant coach, referee, sports time keeping, life guard, substitute teachers, crossing guards, appointed officials or any other position which is paid via 1099 Form rather than a W-2 form.]

Membership
July 25, 2007
Upon becoming a member of the Lawrence Retirement System, any member may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee, provided that the member remits to the Lawrence Retirement Board the appropriate amount of contributions that would have been withheld, together with regular interest, had he or she been a member of the System at the time the service was rendered. It shall be the sole responsibility of the member to obtain and provide to the Board verification of this past service rendered, including but not limited to W-2 Forms and payroll records verified by the payroll coordinator for the employer or any other employee who has the similar duties of the payroll coordinator indicating the amount of compensation received and amount of hours worked for each calendar year in which service is sought to be purchased. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(l), on a case by case basis, to accept alternative documentation to verify said service and compensation.

April 25, 2005
Effective April 25, 2005, any individual who is permanently employed for a minimum of twenty (20) hours per week by the City of Lawrence, the Lawrence Public Schools or any member unit of the Lawrence Retirement System ("System"), shall immediately become a member of the System. Police Department crossing guards do not meet the required 20 hour minimum, and are no longer eligible for city benefits, therefore shall not be eligible for membership in the Lawrence Retirement System.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 21, 2003
Any individual who is permanently employed for a minimum of twenty (20) hours per week by the City of Lawrence, Lawrence Public Schools or any member unit of the Lawrence Retirement System ("System"), shall immediately become a member of the System. So-called "permanent" and/or "long-term" substitute teachers shall not be considered permanent employees and shall not be eligible for new membership in the Lawrence Retirement System. Individuals who are appointed, rather than elected by a direct vote of the people, to boards, commissions and similar entities in the City of Lawrence shall not be eligible to join the system.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller 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:	David Camasso, Chairman		
Appointed Member:	Elvin Alarcon	Until a successor is appointed	
Elected Member:	Kevin Loughlin	Term Expires:	7/1/2016
Elected Member:	Gina Rizzo	Term Expires:	10/13/2015
Appointed Member:	William Bateman	Term Expires:	12/31/2015

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.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Fiduciary liability coverage provided to a limit of
Ex-officio Member:	)	$2,000,000 under a master MACRS-sponsored
Elected Members:	)	policy issued through a layered program with
Appointed Members:	)	Travelers Casualty & Surety Co., National Union
Staff Employees:	)	Fire, and Arch Insurance Co. Deductible $100,000
		Separate fidelity coverage pertaining to ERISA/Crime
		to a limit of$1,000,000 issued through Travelers.
		Deductible $10,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2012.

The actuarial liability for active members was	$140,906,488
The actuarial liability for inactive members was	3,348,485
The actuarial liability for retired members was	191,802,065
The total actuarial liability was	$336,057,038
System assets as of that date were	132,574,747
The unfunded actuarial liability was	$203,482,291
The ratio of system's assets to total actuarial liability was	39.5%
As of that date the total covered employee payroll was	$55,767,015

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer was	3.1% of payroll

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

Investment Return:	7.75% per annum
Rate of Salary Increase:	3.75% ultimate plus 4% steps for first 5 years of service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012
(Amounts in $000's)

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)
1/1/2012	$132,575	$336,057	$203,482	39.5%	$55,767	364.9%
1/1/2010	$120,292	$307,626	$187,334	39.1%	$57,831	323.9%
1/1/2008	$139,750	$285,983	$146,233	48.9%	$59,578	245.4%
1/1/2007	$128,728	$272,947	$144,219	47.2%	$59,179	243.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	20	28	7	20	18	32	29	40	24	36
Ordinary Disability	0	0	0	0	1	0	0	1	0	0
Accidental Disability	2	3	3	2	2	1	4	3	4	0
Total Retirements	22	31	10	22	21	33	33	44	28	36
Total Retirees, Beneficiaries and Survivors	953	971	912	934	919	916	876	867	883	887
Total Active Members	1,776	1,659	1,668	1,579	1,569	1,538	1,528	1,442	1,498	1,421
Pension Payments										
Superannuation	$8,270,571	$8,751,109	$8,713,404	$9,296,343	$9,429,291	$9,691,083	$10,365,554	$11,280,081	$11,797,882	$12,282,529
Survivor/Beneficiary Payments	865,173	834,314	858,325	911,014	955,681	972,169	973,736	998,965	984,449	1,015,239
Ordinary Disability	139,357	124,757	129,433	97,247	102,163	85,703	64,690	54,794	46,341	47,689
Accidental Disability	3,185,424	3,313,609	3,416,212	3,705,876	3,568,794	3,592,934	3,677,299	3,827,659	3,919,434	4,007,201
Other	1,681,277	1,677,239	1,818,100	1,714,957	1,613,388	1,755,087	1,862,541	1,912,958	2,047,184	2,266,688
Total Payments for Year	$14,141,802	$14,701,028	$14,935,474	$15,725,437	$15,669,317	$16,096,976	$16,943,820	$18,074,457	$18,795,289	$19,619,348

NOTE 7 – LEASED PREMISES

The Lawrence Retirement Board leases approximately 2,000 square feet of space for its offices located at Suite 302, 354 Merrimack Street, Lawrence, MA. 01843. They signed an initial 5-year lease term ($14.00 per sq ft) which expired May 31, 2009. They exercised an option to renew for the 3-year period from 6/1/2009 to 5/31/12. On June 27, 2012 the Board authorized a new 4-year lease agreement ($18.76 per sq ft) that will expire May 31, 2016. The Board retains an option to renew for an additional 3-year period. The landlord is S&N Lawrence Realty, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2012:

For the year ending:	Annual Rent
2013	$37,520.00
2014	$37,520.00
2015	$37,520.00
2016	$15,633.33
Total future minimum lease payments required	$128,193.33

Note: A security deposit in the amount of $5,402.24 is retained by the Lessor.

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