

PERAC AUDIT REPORT

 Massachusetts Teachers'
Contributory Retirement System

 For the Three-Year Period
JAN. 1, 2010 - DEC. 31, 2012

 And the Twelve-Month Period
JULY 1, 2012 - JUNE 30, 2013

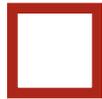
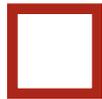


TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances	6
Statement of Receipts.....	7
Statement of Disbursements.....	8
Investment Income	9
Schedule of Allocation of Investments Owned.....	10
Statement of Ledger Assets and Liabilities.....	10
Statement of Changes in Fund Balances	11
Statement of Receipts.....	12
Statement of Disbursements.....	13
Investment Income	14
Schedule of Allocation of Investments Owned.....	15
Supplementary Investment Regulations	11
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	18
Note 2 - Significant Accounting Policies	24
Note 3 - Supplementary Membership Regulations.....	27
Note 4 - Administration of the System	28
Note 5 - Actuarial Valuation and Assumptions.....	29
Note 6 - Membership Exhibit.....	30
Note 7 – Leased Premises	31
Note 8 – Software Acquisition and Development Costs.....	31

PERAC

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. McCARTHY

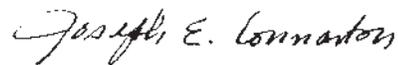
September 4, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Teachers' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. Due to a legislative change, fiscal year reporting is now July 1, 2012 through June 30, 2013. 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 examiners James Tivnan and James Ryan 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



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Annuity Savings Fund/Supplemental Membership Schedule

The Annuity Savings Fund database of membership activity is the most significant record that a retirement system is required to maintain. PERAC requires that each Annual Statement contain a Supplemental Membership Schedule. This schedule must reconcile with the Annuity Savings Fund Account balance reflected on the general ledger. This is a particularly difficult function for this system involving over 87,765 members and 423 employers. The membership database record file supplied during the current audit did not agree with the general ledger. The difference can be attributed to changes made to the Membership records that are not reflected in the general ledger. Annually, the system provides a statement to all members disclosing the beginning balance of their accumulated Annuity Savings Fund, contributions made during the current year, interest applied during the current period and the ending balance in their account at the recent calendar end period. This is the most complete subsidiary record for a specific date that is available to the system. This aggregate total should be used to reconcile with the general ledger.

Recommendation: The regular membership updating and correction process must better identify accounting issues as they occur. The general ledger balance in the Annuity Savings Fund must be adjusted to agree with the membership database record file at the next general ledger closing cycle.

Board Response:

We agree that the reconciliation of member account balances at year end is challenging for a system with over 87,000 active members and 420 employers. One of the main reasons is that our employers' calendar year deductions take up to four months into the new year to close. Some employers submit their data late, and staff must work with many others to correct their data before it can be loaded into our system. The monthly contributions submitted by employers are recorded in the general ledger as they are received but are not recorded in the member's annuity savings account until the deduction report has been audited and then released by the Employer Services staff. As noted, this can take several months.

Prior to the full implementation of our new pension management information system, MyTRS, the total Annual Membership Account Statement output was the most complete record available to use as a comparison of the annuity savings fund balance against the general ledger balance. However, the delays inherent in closing our employers' deduction reports created timing and cutoff complexities in the reconciliation process. In addition to the timing of when contributions hit the member's account, another impediment to using the membership account statement was that during the four months to close out the calendar year statements, we continue to process member retirements, refunds, deaths and member account transfers. If a member has one of these transactions occur during that period, we do not provide them with an Annual Membership Account Statement.

Now, with the full implementation of MyTRS, we are in a position to improve the reconciliation process. MyTRS gives us the functionality to run a series of queries to review and account for all financial and transactional activity processed in the system. This will aid us to better identify accounting issues as they occur in the membership records, and should allow us on an annual basis, at the closing of our general ledger cycle (now June 30th), to reconcile our membership database record file with the general ledger. For the first time, we will be testing this process to reconcile the general ledger with the member account balances as of the close of fiscal year 2015.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Members' Contributions Collected through Payroll Deductions

PERAC auditors sampled members' contributions to determine that the correct rates are being assigned and withheld. The following observations were made:

- A contribution rate is assigned specific to each member. This is based on the current date of eligible membership in a Massachusetts public pension system. Our sample identified members with dates entered in the data framework that were inconsistent with the content in the members' file. The result is likely either an obligation to return funds to the member or to recover funds not deducted correctly.
- We observed that some employers fail to complete the standards for reporting payroll information required by the MTRS system. The result is a delay in processing that could extend for several months between the receipt of the payroll data and when it is corrected and posted to the members' Annuity Savings Fund account record in the MTRS database.
- The database records sampled disclosed that either the member or the employer had not completed the enrollment process. The result was basic data related to dates of birth and similar information was missing or omitted from the data framework. This prevented confirmation of the accuracy of their age for actuarial purposes.

The absence of or inaccurate data may affect the determination of the unfunded liability of the system as well as the feasibility of the proposed funding schedule. The MTRS has made a significant commitment to create and upgrade the membership records for each participating member of the system by purchasing a new comprehensive system. This involved the cooperation of 423 employer units reporting for approximately 87,765 members across the Commonwealth. The aggregate cost of this commitment is estimated in excess of \$20 million. The system identifies multiple alternate status types to more accurately reflect the relative progress level attributed to each data record. These additional classifications assist in clarifying the overall level of inconsistencies that exist within the database records. All of the data issues encountered during the audit were anticipated by the system. The system applies multiple validation tests to the employer data to correct and minimize these issues. We observed the reporting elements that are designed as compensating controls to measure and provide perspective to these issues were not available during the audit due to defects in the management reports that were being fixed. This limited the ability of the auditors to provide perspective to these observations. That determination could mitigate the impact of the errors and exceptions noted.

Recommendation: The system needs to provide improved perspective to these data anomalies in comparison to the overall status of the conversion project. Carefully designed metrics would help to quantify the progress of the project. These measurements would enhance the evaluation of project performance data in the form of reports. These must be refined to more readily evaluate the priority to assign to the various elements that result in errors and exceptions.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

(Continued)

Board Response:

Our new pension management information system (MyTRS) allows us to run a series of system-wide queries, which are researched to determine whether they are in fact errors allowing us to manage data anomalies and missing data elements related to contribution rates, enrollments, dates of birth and other financial and demographic data. The MTRS has very few instances where an employer has failed to complete their portion of the enrollment/registration process. The MyTRS system flags any non-registered member on the monthly deduction report import and the import will not process until the member is registered by the employer. MyTRS allows members to enroll online and now allows MTRS staff to track the completeness of those applications. Employers receive alert messages on a monthly basis for every active member who hasn't enrolled. In addition, we remind members annually through a message on our member annual statement to complete their enrollment and/or make changes to any of their demographic data that may require an update (e.g. number of dependent children, beneficiaries, etc.). Finally, we are working on several other outreach strategies to have members complete their portion of the enrollment process. In regard to the contribution rate anomalies, the MTRS will always have rate anomalies related to those members who transfer into the MTRS. The retirement statute allows members 180 days to decide whether or not to elect into the RetirementPlus program. This provision creates a period of time where a member's rate is neither officially 11% nor their non-R+ contribution rate, and flags the record as an anomaly each month during the election period. Since the completion of this audit, the MTRS has conducted two annual projects, collecting missing DOBs from employers to supplement our member enrollment strategies. The latest project reduced the number of missing DOBs to 80 out of a population of 88,000 active members prior to the creation of the January 1, 2015 actuarial file. We have produced the 2013 and 2014 census data files from MyTRS and PERAC's actuary has confirmed that the system's data quality and output have improved significantly.

3. System Administration

The monthly MTRS Board Meeting scheduled for August 2013 was cancelled due to the lack of a quorum.

Recommendation: The Board must comply with G.L. c. 32, § 20(5) (a) and its own Board policy I.1(A) which requires it to meet at least once each calendar month.

Board Response:

We agree that the August 2013 Board meeting was cancelled due to an unexpected lack of a quorum. We establish our schedule of monthly Board meetings each December for the following calendar year. Our Board meetings are typically held on the last Friday of each month, but in the event that we become aware of conflicts, we reschedule the meeting as needed to ensure a quorum.

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	\$91,620,335	\$6,491,945	\$56,608,632
PRIT Cash Fund	26,661,488	13,460,951	15,983,580
PRIT Core Fund	21,907,549,198	20,115,152,921	21,000,336,165
Prepaid Expenses	300,728	246,067	185,085
Accounts Receivable	58,279,122	66,873,152	65,933,866
Software Acquisition & Development Costs, Net	12,327,595	12,423,297	10,999,460
Accounts Payable	(10,113,917)	(4,650,175)	(309,284)
Total	<u>\$22,086,624,549</u>	<u>\$20,209,998,158</u>	<u>\$21,149,737,504</u>
Fund Balances:			
Annuity Savings Fund	\$5,620,739,989	\$5,385,102,928	\$5,163,834,249
Annuity Reserve Fund	2,623,153,538	2,591,961,810	2,543,502,166
Pension Fund	0	0	0
Military Service Fund	214,709	366,792	336,522
Expense Fund	0	0	0
Pension Reserve Fund	<u>13,842,516,313</u>	<u>12,232,566,628</u>	<u>13,442,064,567</u>
Total	<u>\$22,086,624,549</u>	<u>\$20,209,998,158</u>	<u>\$21,149,737,504</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$4,928,039,833	\$2,473,968,789	\$0	\$319,019	\$0	\$12,066,892,326	\$19,469,219,967
Receipts	630,167,101	73,326,678	843,499,066	19,438	109,570,846	2,360,294,751	4,016,877,880
Interfund Transfers	(364,381,469)	364,383,404	985,122,510	(1,935)	0	(985,122,510)	0
Disbursements	(29,991,216)	(368,176,705)	(1,828,621,576)	0	(109,570,846)	0	(2,336,360,343)
Ending Balance (2010)	5,163,834,249	2,543,502,166	0	336,522	0	13,442,064,567	21,149,737,504
Receipts	625,177,502	75,067,465	955,317,293	30,270	123,425,336	(137,470,519)	1,641,547,347
Interfund Transfers	(368,596,325)	368,596,325	1,072,027,422	0	0	(1,072,027,422)	0
Disbursements	(35,312,498)	(395,204,146)	(2,027,344,715)	0	(123,425,336)	0	(2,581,286,695)
Ending Balance (2011)	5,385,102,928	2,591,961,810	0	366,792	0	12,232,566,626	20,209,998,156
Receipts	647,620,873	76,493,625	1,104,426,158	26,629	132,013,092	2,548,237,196	4,508,817,573
Interfund Transfers	(377,651,954)	377,830,666	938,287,509	(178,712)		(938,287,509)	0
Disbursements	(34,331,858)	(423,132,563)	(2,042,713,667)	0	(132,013,092)	0	(2,632,191,180)
Ending Balance (2012)	\$5,620,739,989	\$2,623,153,538	\$0	\$214,709	\$0	\$13,842,516,313	\$22,086,624,549

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$610,835,488	\$593,682,638	\$578,420,648
Transfers from Other Systems	8,730,321	10,157,317	12,683,504
Member Make Up Payments and Re-deposits	12,453,248	12,494,915	9,245,512
Member Payments from Rollovers	10,631,619	8,382,708	6,403,052
Investment Income Credited to Member Accounts	<u>4,970,197</u>	<u>459,924</u>	<u>23,414,385</u>
Sub Total	<u>647,620,873</u>	<u>625,177,502</u>	<u>630,167,101</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>76,493,625</u>	<u>75,067,465</u>	<u>73,326,678</u>
Sub Total	<u>76,493,625</u>	<u>75,067,465</u>	<u>73,326,678</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	12,125,771	12,306,958	12,838,684
Pension Fund Appropriation	166,403,713	153,291,539	139,475,980
Settlement of Workers' Compensation Claims	925,801,702	789,455,959	691,177,107
Recovery of 91/91A Overearnings	49,000	110,412	0
	<u>45,972</u>	<u>152,425</u>	<u>7,295</u>
Sub Total	<u>1,104,426,158</u>	<u>955,317,293</u>	<u>843,499,066</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	26,414	30,223	17,847
Investment Income Credited to the Military Service Fund	<u>215</u>	<u>47</u>	<u>1,591</u>
Sub Total	<u>26,629</u>	<u>30,270</u>	<u>19,438</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>132,013,092</u>	<u>123,425,336</u>	<u>109,570,846</u>
Sub Total	<u>132,013,092</u>	<u>123,425,336</u>	<u>109,570,846</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	4,969,582	4,886,335	4,302,508
Interest Not Refunded	304,123	308,386	471,957
Excess Investment Income (Loss)	<u>2,542,963,491</u>	<u>(142,665,240)</u>	<u>2,355,520,286</u>
Sub Total	<u>2,548,237,196</u>	<u>(137,470,519)</u>	<u>2,360,294,751</u>
Total Receipts, Net	<u>\$4,508,817,573</u>	<u>\$1,641,547,347</u>	<u>\$4,016,877,880</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$28,209,469	\$30,180,873	\$26,434,060
Transfers to Other Systems	6,122,389	5,131,625	3,557,156
Sub Total	<u>34,331,858</u>	<u>35,312,498</u>	<u>29,991,216</u>
Annuity Reserve Fund:			
Annuities Paid	421,369,011	393,981,869	365,946,069
Option B Refunds	1,763,552	1,222,277	2,230,636
Sub Total	<u>423,132,563</u>	<u>395,204,146</u>	<u>368,176,705</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,731,941,224	1,647,559,978	1,556,989,363
3 (8) (c) Reimbursements to Other Systems	98,355,598	214,155,411	118,583,740
State Reimbursable COLA's Paid	166,403,713	153,291,539	139,475,980
Reimbursement to Commonwealth's General Fund	45,996,660	12,306,958	13,553,998
QEBA	16,472	30,829	18,495
Sub Total	<u>2,042,713,667</u>	<u>2,027,344,715</u>	<u>1,828,621,576</u>
Expense Fund:			
Board Member Stipend			
Salaries	6,960,897	6,601,420	6,309,642
Legal Expenses	10,610	19,433	37,301
PERAC Expenses	3,352,466	3,661,332	2,865,172
Travel Expenses	19,511	16,685	17,916
Administrative Expenses	535,689	543,380	346,827
Federal Grants Distributed	4,969,582	4,886,335	4,302,508
Education and Training	2,151	5,744	11,028
Furniture and Equipment	208,302	262,752	207,818
Management Fees	112,260,221	103,757,349	91,951,236
Rent Expenses	709,828	743,742	791,862
Service Contracts	1,136,405	1,079,734	882,106
Amortization Expense	1,847,430	1,847,430	1,847,430
Sub Total	<u>132,013,092</u>	<u>123,425,336</u>	<u>109,570,846</u>
Total Disbursements	<u>\$2,632,191,180</u>	<u>\$2,581,286,695</u>	<u>\$2,336,360,343</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Investment Income Received From:			
Cash	\$235,166	\$206,796	\$296,764
Pooled or Mutual Funds	<u>670,970,065</u>	<u>633,913,530</u>	<u>565,231,459</u>
Total Investment Income	<u>671,205,231</u>	<u>634,120,326</u>	<u>565,528,223</u>
Plus:			
Realized Gains	543,434,626	647,311,266	507,095,689
Unrealized Gains	2,845,357,723	2,042,940,305	3,852,091,039
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,388,792,349</u>	<u>2,690,251,571</u>	<u>4,359,186,728</u>
Less:			
Realized Loss	0	(11,633,400)	0
Unrealized Loss	(1,303,556,960)	(3,256,450,965)	(2,362,881,165)
Sub Total	<u>(1,303,556,960)</u>	<u>(3,268,084,365)</u>	<u>(2,362,881,165)</u>
Net Investment Income	<u>2,756,440,620</u>	<u>56,287,532</u>	<u>2,561,833,786</u>
Income Required:			
Annuity Savings Fund	4,970,197	459,924	23,414,385
Annuity Reserve Fund	76,493,625	75,067,465	73,326,678
Military Service Fund	215	47	1,591
Expense Fund	<u>132,013,092</u>	<u>123,425,336</u>	<u>109,570,846</u>
Total Income Required	<u>213,477,129</u>	<u>198,952,772</u>	<u>206,313,500</u>
Net Investment Income	<u>2,756,440,620</u>	<u>56,287,532</u>	<u>2,561,833,786</u>
Less: Total Income Required	<u>213,477,129</u>	<u>198,952,772</u>	<u>206,313,500</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,542,963,491</u>	<u>(\$142,665,240)</u>	<u>\$2,355,520,286</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$91,620,335	0.4%
PRIT Cash Fund	26,661,488	0.1%
PRIT Core Fund	<u>21,907,549,198</u>	<u>99.5%</u>
Grand Total	<u>\$22,025,831,021</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Massachusetts Teachers' Retirement System was 14.00%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Massachusetts Teachers' Retirement System averaged 1.52%. 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 Massachusetts Teachers' Retirement System was 9.55%.

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%.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF JUNE 30, 2013	
Net Assets Available For Benefits:	
Cash	\$ 115,676,832
PRIT Cash Fund	35,510,605
PRIT Core Fund	22,444,808,144
Prepaid Expenses	548,678
Accounts Receivable	98,654,863
Intangible Software Development, Net	13,152,259
Accounts Payable	(10,074,085)
Total	<u>\$22,698,277,296</u>
Fund Balances:	
Annuity Savings Fund	\$5,933,509,751
Annuity Reserve Fund	2,505,338,054
Pension Fund	0
Military Service Fund	219,177
Expense Fund	0
Pension Reserve Fund	<u>14,259,210,314</u>
Total	<u>\$22,698,277,296</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance July 1, 2012	5,341,665,529	2,806,503,797	0	210,067	0	12,847,081,580	20,995,460,973
Receipts	688,452,898	76,982,684	1,128,717,275	13,593	142,302,312	2,342,767,849	4,379,236,612
Interfund Transfers	(55,999,154)	56,003,637	930,639,115	(4,483)	0	(930,639,115)	0
Disbursements	<u>(40,609,523)</u>	<u>(434,152,064)</u>	<u>(2,059,356,390)</u>	<u>0</u>	<u>(142,302,312)</u>	<u>0</u>	<u>(2,676,420,289)</u>
Ending Balance, June 30, 2013	<u>\$5,933,509,751</u>	<u>\$2,505,338,054</u>	<u>\$0</u>	<u>\$219,177</u>	<u>\$0</u>	<u>\$14,259,210,314</u>	<u>\$22,698,277,296</u>

STATEMENT OF RECEIPTS

FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2013	
Annuity Savings Fund:	
Members Deductions	\$642,694,389
Transfers from Other Systems	12,058,849
Member Make Up Payments and Re-deposits	14,775,371
Member Payments from Rollovers	13,617,125
Investment Income Credited to Member Accounts	<u>5,307,164</u>
Sub Total	<u>688,452,898</u>
Annuity Reserve Fund:	
Recovery of Annuity from Reinstatement	
Investment Income Credited to the Annuity Reserve Fund	<u>76,982,684</u>
Sub Total	<u>76,982,684</u>
Pension Fund:	
3 (8) (c) Reimbursements from Other Systems	15,424,275
Received from Commonwealth for COLA and Survivor Benefits	176,181,559
Pension Fund Appropriation	937,065,856
Settlement of Workers' Compensation Claims	<u>45,585</u>
Sub Total	<u>1,128,717,275</u>
Military Service Fund:	
Contribution Received from Municipality on Account of Military Service	13,372
Investment Income Credited to the Military Service Fund	<u>221</u>
Sub Total	<u>13,593</u>
Expense Fund:	
Investment Income Credited to the Expense Fund	<u>142,302,312</u>
Sub Total	<u>142,302,312</u>
Pension Reserve Fund:	
Federal Grant Reimbursement	4,958,158
Interest Not Refunded	294,658
Miscellaneous Income	1,181
Excess Investment Income	<u>2,337,513,852</u>
Sub Total	<u>2,342,767,849</u>
Total Receipts, Net	<u>\$4,379,236,612</u>

STATEMENT OF DISBURSEMENTS

FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2013	
Annuity Savings Fund:	
Refunds to Members	\$33,256,680
Transfers to Other Systems	<u>7,352,843</u>
Sub Total	<u>40,609,523</u>
Annuity Reserve Fund:	
Annuities Paid	434,152,064
Option B Refunds	<u>0</u>
Sub Total	<u>434,152,064</u>
Pension Fund:	
Pensions Paid:	
Regular Pension Payments	1,769,398,042
3 (8) (c) Reimbursements to Other Systems	98,352,514
State Reimbursable COLA's Paid	176,181,559
Reimbursement to Commonwealth's General Fund	<u>15,424,275</u>
Sub Total	<u>2,059,356,390</u>
Expense Fund:	
Salaries	7,830,353
Legal Expenses	10,194
Travel Expenses	23,541
PERAC Expenses	3,886,474
Administrative Expenses	546,359
Federal Grants Distributed	4,958,158
Education and Training	2,062
Furniture and Equipment	314,996
Management Fees	120,185,704
Rent Expenses	724,682
Service Contracts	1,059,184
Depreciation	<u>2,760,605</u>
Sub Total	<u>142,302,312</u>
Total Disbursements	<u>\$2,676,420,289</u>

INVESTMENT INCOME

FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2013	
Investment Income Received From:	
Cash	\$1,236,024
Pooled or Mutual Funds	<u>607,491,479</u>
Total Investment Income	<u>608,727,503</u>
Plus:	
Realized Gains	730,416,391
Unrealized Gains	2,079,932,688
Interest Due and Accrued - Current Year	<u>0</u>
Sub Total	<u>2,810,349,079</u>
Less:	
Unrealized Loss	(856,970,348)
Interest Due and Accrued - Prior Year	<u>0</u>
Sub Total	<u>(856,970,348)</u>
Net Investment Income	<u>2,562,106,234</u>
Income Required:	
Annuity Savings Fund	5,307,164
Annuity Reserve Fund	76,982,684
Military Service Fund	221
Expense Fund	<u>142,302,312</u>
Total Income Required	<u>224,592,382</u>
Net Investment Income	<u>2,562,106,234</u>
Less: Total Income Required	<u>224,592,382</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,337,513,852</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF JUNE 30, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$115,676,832	0.5%
PRIT Cash Fund	35,510,605	0.2%
PRIT Core Fund	<u>22,444,808,144</u>	<u>99.3%</u>
Grand Total	<u>\$22,595,995,581</u>	<u>100.0%</u>

SUPPLEMENTARY INVESTMENT REGULATIONS

The Massachusetts Teachers' Retirement System is 100% invested in the PRIT Fund managed by the PRIM Board. As a result, there are no supplementary investment regulations that apply to these investments.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Massachusetts Teachers' Retirement System member unit employees deemed eligible by the retirement board, as well as State-Boston Retirement System school department employees who serve in a teaching, administrative, or other capacity deemed eligible by the retirement board.

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 4 classes of membership in the public retirement system, but all teachers are classified as Group I employees:

Group I:

Consists of general employees, including clerical, administrative, technical and all other employees not otherwise classified. All Massachusetts Teachers' Retirement System members are classified in Group I.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership and whether the member has accepted the provisions of Chapter 114 of the Acts of 2000, thereby enrolling in Retirement*Plus*. This term includes the Teachers' Alternate Retirement Program (TARP) of the State-Boston Retirement System.

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.

Members of Group I 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.

In addition, if the member's most recent date of membership was prior to July 1, 2001 and the member has enrolled in Retirement*Plus*, and any member beginning service on or after July 1, 2001:

7/1/01 to present:	11% of regular compensation
--------------------	-----------------------------

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

There is no mandatory retirement age for employees in Group I.

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 (30 years for Retirement*Plus*), or
- attainment of age 55 if hired prior to 1978, or
- attainment of age 55 with 10 years of service, if hired after 1978

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group I employees who retire at or after age 65. A .1% reduction is applied for each year of age under the maximum age.
- 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 I employees who retire at or after age 67. A .15% reduction is applied for each year of age under the maximum age.
- 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 I employees who retire at or after age 67. A .125% reduction is applied for each year of age under the maximum age.

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. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group I 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$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 \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group I who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission. Effective as of July 1, 2013, the accounting records of the System will be maintained on a fiscal year basis.

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. Pooled funds are valued based on the net asset or unit value at year end. 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. Income is generally recorded when received. Interest income is recorded as earned on an accrual basis. 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 actual funds realized upon liquidation may differ from these estimates.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Teachers' Retirement System submitted the following supplementary membership regulations, which have been approved by the Public Employee Retirement Administration Commission. The complete text of all regulations can be viewed on the MTRS website: www.mass.gov/mtrs.

807 CMR 2.00: Rules of Election

807 CMR 3.00: Retirement and Credit for Service

807 CMR 4.00: Eligibility for Membership

807 CMR 5.00: Employer Reporting Requirements

807 CMR 6.00: Regular Compensation

807 CMR 7.00: Documentation to be obtained for Ordinary or Accidental Disability

807 CMR 9.00: Elective Payroll Deductions for RetirementPlus Accelerated Contributions Under M.G.L. c. 32, § 5

807 CMR 10.00: Maternity Service Purchases

807 CMR 12.00: Rollover Distributions and Trust to Trust Transfers

807 CMR 13.00: Transfer of Membership of RetirementPlus Members

807 CMR 14.00: Purchase of Creditable Service for Prior Vocational Work Experience

807 CMR 15.00: Confidentiality of Information

807 CMR 16.00: Qualified Excess Benefit Arrangement

807 CMR 17.00: Workers' Compensation Benefit Offset and Verification

807 CMR 18.00: Mandatory Direct Deposit

807 CMR 19.00: Eligibility for Out of State Service Purchase

807 CMR 20.00: Employer in Qualified Government Plan

807 CMR 21.00: Maternity Service Credit

807 CMR 22.00: Interest On Incorrect Payments

807 CMR 23.00: Effective Date Of Service Purchase Interest Rate

Travel Regulations:

The MTRS Board adopted a travel policy May 24, 2001, amended most recently on July 20, 2010.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a seven-person Board of Retirement consisting of the Commissioner Of Education or his designee who shall be a member ex-officio and serve as Chairman, a second member appointed by the Governor and who shall be a retired former public school teacher within the Commonwealth,, a third and fourth member who shall be elected by the members in or retired from the service of such system, the State Treasurer and the State Auditor or one designee of each, and a seventh member appointed by the other six board members.

Ex-officio Member:	Jeff Wulfson, Chairman		
Governor Appointee:	Anne Wass	Term Expires:	4/18/2018
Elected Member:	Dennis Naughton	Term Expires:	12/31/2015
Elected Member:	Karen Ann Mitchell	Term Expires:	12/31/2015
Appointed Member:	Richard Liston	Term Expires:	1/31/2016
Treasurer Designee:	Nicola Favorito	Until a successor is named	
Auditor Designee:	Joannah Quinn	Until a successor is named	

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 PRIM Board. All retirement allowances must be approved by the Retirement Board. The system has obtained a waiver for superannuation calculations. The annual budget for expenses estimated to be incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by a designee of the Board.

Fidelity insurance is the only required policy coverage under Ch 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$500,000 issued through Hartford Casualty Insurance Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2013.

Dollar amounts are in thousands

The actuarial liability for active members was	\$15,605,922
The actuarial liability for retired members was	<u>23,529,296</u>
The total actuarial liability was	\$39,135,218
System assets as of that date were	<u>21,787,470</u>
The unfunded actuarial liability was	<u><u>\$17,347,748</u></u>
The ratio of system's assets to total actuarial liability was	55.7%
As of that date the total covered employee payroll was	\$5,783,294

The normal cost for employees on that date was 9.9% of payroll

The normal cost for the employer was 2.1% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 4.0 - 7.5% based on years of service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

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)
1/1/2013	\$21,787,470	\$39,135,218	\$17,347,748	55.7%	\$5,783,294	300.0%
1/1/2012	\$22,141,475	\$36,483,027	\$14,341,552	60.7%	\$5,655,353	253.6%
1/1/2011	\$23,117,952	\$34,890,991	\$11,773,039	66.3%	\$5,558,311	211.8%
1/1/2010	\$21,262,462	\$33,738,966	\$12,476,504	63.0%	\$5,509,698	226.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	1,352	3,788	3,444	4,327	3,362	3,085	2,756	2,791	2,788	2,655
Ordinary Disability	12	20	19	17	13	12	16	9	12	13
Accidental Disability	6	8	7	16	2	3	5	5	1	3
Total Retirements	1,370	3,816	3,470	4,360	3,377	3,100	2,777	2,805	2,801	2,671
 Total Retirees, Beneficiaries and Survivors	39,755	42,532	44,871	48,050	50,491	52,615	54,465	56,147	57,949	59,628
 Total Active Members	84,255	84,117	83,723	85,847	86,134	86,421	82,779	87,037	85,854	88,634
 Pension Payments										
Superannuation	\$779,131,002	\$898,472,290	\$1,006,661,500	\$1,124,799,860	\$1,354,966,080	\$1,364,371,566	\$1,464,456,507	\$1,556,989,363	\$1,647,559,978	\$1,731,941,224
Other	116,768,109	140,170,680	162,484,460	181,382,560	191,185,450	238,981,684	254,922,920	258,078,215	367,477,779	264,775,783
Total Payments for Year	<u>\$895,899,111</u>	<u>\$1,038,642,970</u>	<u>\$1,169,145,960</u>	<u>\$1,306,182,420</u>	<u>\$1,546,151,530</u>	<u>\$1,603,353,250</u>	<u>\$1,719,379,427</u>	<u>\$1,815,067,578</u>	<u>\$2,015,037,757</u>	<u>\$1,996,717,007</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Massachusetts Teachers Retirement System has entered into various operating lease agreements for office space and business equipment with varying terms.

The Massachusetts Teachers Retirement System leases approximately 17,800 square feet of space for its offices on the second floor in the One Charles Park office building, in Cambridge, Massachusetts. They signed an initial 5-year lease term in March, 2006 that expired in 2011. An amendment and extension was agreed upon for the term beginning in May, 2011 until 2016. The cost per square foot include a range from \$35.56 to \$42.51 over the term of the lease. The landlord is Charles Park One, LLC, a property management company.

There is also an office in Springfield, Massachusetts located at 1414 Main Street, Suite #510. The office contains 2,661 square feet at a cost of \$21.95 per square feet. The term is five years expiring November 30, 2015. The landlord is the Picknelly Family Limited Partnership.

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

For the calendar year ending:

2013	\$ 739,763.88
2014	\$ 770,790.63
2015	\$ 797,969.37
2016	\$ 283,721.63
Total future minimum lease payments required	<u>\$2,592,245.51</u>

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of June 30, 2013:

For the fiscal year ending:

2014	\$ 755,091.67
2015	\$ 786,619.28
2016	\$ 686,354.17
2017	\$ 0
Later years	\$ 0
Total future minimum lease payments required	<u>\$2,228,065.12</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - SOFTWARE ACQUISITION AND DEVELOPMENT COSTS

The Massachusetts Teachers Retirement System has made a significant investment in new technology to improve service to its members and retirees. The system approved a significant technology initiative in 2008 that involved a significant upgrade to its technology platform. The system went live in September 2013 with the current phase of the project. Additional testing and integration of this phase of the project is currently ongoing. The design is to improve the accuracy and reporting of data throughout the system. The next phase of the project involves replacing the infrastructure at the hosting facilities. The estimated total project cost is \$36.7 million dollars with an estimated completion date in March of 2017.

Capitalized costs consisted of the following components as of December 31, 2012:

Asset Classification:	Acquisition Cost	Service Life:
Software	\$ 17,806,044	7 years
Hardware	<u>\$ 63,840</u>	3 years
Total	\$ 17,869,884	

Commitments in future periods for agreements currently in place consist of the following:

2013	\$ 2,900,000
2014	\$ 7,500,000
2015	\$ 6,400,000
2016	\$ 1,500,000
2017	<u>\$ 500,000</u>
Subtotal	\$ 18,800,000
Total	\$ 36,669,884

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac