PERAC AUDIT REPORT

Lowell
Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

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

April 3, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Lowell Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 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, James Ryan, Susan Kerr and Sam O'Brien 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. Membership Issues:
The Lowell Retirement Board has established regulations and defined policies governing who qualifies for membership in the system. An inspection of the payroll records disclosed fourteen employees of the Lowell School Department were contributing to an OBRA plan. Their job position, functions, hours assigned and compensation would qualify them for membership in the system. These employees were inadvertently excluded from membership.

Recommendation: It is the responsibility of the Lowell Retirement Board to ensure that all qualified employees are enrolled in the system. Membership is not optional and all eligible employees are required to participate. The system cannot delegate to others its' responsibilities for enrolling qualified employees. The system requires the cooperation of all departments and units to ensure compliance with membership rules. The System must improve the process by which employees are identified as eligible for membership in the retirement system. The process must develop a report that monitors job progression. The process must develop a report that identifies persons assigned to positions eligible for membership. Redirecting the confirmation of compensation to the retirement office for retrieval by the employee, supervisor notification and regular review of job progress are some steps to consider that will avoid protracted delays in membership participation.

Board Response:
The Lowell Retirement Staff is currently working with all departments to ensure all eligible employees are immediately enrolled into the retirement system.

2. Payroll Qualified For Retirement:
An inspection of the payroll records disclosed the City has been compensating employees of the inspectional services department a flat fee for a travel allowance. This was designed to reimburse employees for the use of their personal vehicle in the performance of their municipal duties. These payments were included in the determination of payroll qualified for retirement contributions. This type of compensation is specifically excluded per Ch. 21 of the Acts of 2009.

Recommendation: 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. The system must insist that all employer units advise the Lowell Retirement Board of all new payroll codes initiated by the unit payroll officers. Refunds must be calculated and returned for current year contributions deducted in error. Prior year contributions must be refunded and are subject to the rules governing taxable distributions from qualified retirement plans. A complete payroll register must be obtained and inspected to monitor and confirm compliance on a regular basis. This function will provide additional internal financial control to confirm that contributions are accurate and benefits are earned within the established rules.

Board Response:
The Board has addressed the travel allowance compensation issue with the City of Lowell's Payroll Supervisor and this has since been corrected and is no longer subject to retirement. The Board's staff will determine what members will need to be refunded.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Refunds:
The sample of refunds inspected disclosed that interest was not always calculated correctly. These errors were limited to cases where a member transferred in from another system and subsequently withdrew from this system. Under specific conditions, the refund qualified for 3% interest. The refund calculation did not fully include the contributions from the prior system. The interest was limited to membership deductions with the Lowell system.

Recommendation: PERAC Memo #31/2010 provides guidance on issuing refunds to members who voluntarily terminate with less than ten years of creditable service. A complete record of the member's Annuity Savings Fund must be considered in the determination of the interest to be applied to a refund. A detailed record must be requested and obtained from every other system where the person had membership status. The combined chronological record is the correct basis to be referenced to apply the appropriate interest for the qualifying period of creditable service.

Board Response:
The Board's staff will review all 3% interest calculations on refunds for members with service transferred in from other systems and ensure the appropriate amount of interest is applied.

4. Cash/Bank Ledger Activity:
The System maintains two separate bank accounts with Enterprise Bank. One account is a checking account. The other is a money market account designed for short term funds. Occasional transfers are used to supplement the balance in each respective bank account. The financial transactions for both accounts are combined in a single general ledger account. The City Treasurer provides a combination bank reconciliation for both accounts.

Recommendation:
Financial transactions particular to a specific bank account must be reflected in distinct ledger records. Co-mingling the funds of multiple bank accounts does not enhance the review and oversight of financial operations necessary to confirm the authorized activity in these vital records. A unique general ledger record for each bank account must be established. The Retirement Board should also inform the City Treasurer that a separate reconciliation process and result for each account should be regularly provided to the Board.

Board Response:
The Board Administrator has corrected the ledger records and there are two separate ledger records for the checking and savings accounts. The City Treasurer will now provide the Board with separate reconciliations for each account.

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,		
	2013	2012	2011
Net Assets Available For Benefits:			
Cash	$5,846,322	$6,184,752	$6,279,146
Equities	940,890	839,185	751,676
Pooled Alternative Investment Funds	1,695,357	1,555,038	1,721,137
Pooled Real Estate Funds	1,570,283	1,414,184	1,236,566
PRIT Cash Fund	2,000,174	2,000,283	2,000,245
PRIT Core Fund	274,714,573	244,081,793	219,474,007
Interest Due and Accrued	0	0	208
Accounts Receivable	9,155,684	8,854,612	8,595,640
Accounts Payable	0	0	0
Total	$295,923,283	$264,929,846	$240,058,625
Fund Balances:			
Annuity Savings Fund	$89,510,457	$87,470,010	$84,491,778
Annuity Reserve Fund	27,490,396	25,554,533	24,661,055
Pension Fund	0	0	0
Military Service Fund	16,780	16,763	16,747
Expense Fund	0	0	0
Pension Reserve Fund	178,905,649	151,888,539	130,889,046
Total	$295,923,283	$264,929,846	$240,058,625

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 (2011)	$81,865,128	$23,843,314	$468,463	$16,713	$0	$140,067,997	$246,261,616
Receipts	7,985,607	714,445	18,141,260	33	1,475,419	(1,691,327)	26,625,439
Interfund Transfers	(3,909,045)	3,941,146	7,455,523	0		(7,487,624)	0
Disbursements	(1,449,913)	(3,837,851)	(26,065,247)		(1,475,419)	0	(32,828,430)
Ending Balance (2011)	84,491,778	24,661,055	0	16,747	0	130,889,046	240,058,625
Receipts	8,387,635	745,517	18,659,203	17	1,636,031	28,629,085	58,057,488
Interfund Transfers	(4,199,942)	4,213,404	7,616,129	0		(7,629,592)	0
Disbursements	(1,209,461)	(4,065,442)	(26,275,332)	0	(1,636,031)	0	(33,186,267)
Ending Balance (2012)	87,470,010	25,554,533	0	16,763	0	151,888,539	264,929,846
Receipts	8,919,693	776,591	19,257,440	17	1,934,914	35,045,783	65,934,438
Interfund Transfers	(5,513,432)	5,569,633	7,972,472	0		(8,028,673)	0
Disbursements	(1,365,814)	(4,410,361)	(27,229,912)	0	(1,934,914)	0	(34,941,002)
Ending Balance (2013)	$89,510,457	$27,490,396	$0	$16,780	$0	$178,905,649	$295,923,283

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Annuity Savings Fund:			
Members Deductions	$7,752,536	$7,325,901	$7,050,751
Transfers from Other Systems	406,198	651,036	517,141
Member Make Up Payments and Re-deposits	649,319	297,592	231,117
Investment Income Credited to Member Accounts	111,640	113,107	186,599
Sub Total	8,919,693	8,387,635	7,985,607
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	776,591	745,517	714,445
Sub Total	776,591	745,517	714,445
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	394,172	344,027	352,943
Received from Commonwealth for COLA and Survivor Benefits	513,401	584,953	595,038
Pension Fund Appropriation	18,311,367	17,709,223	17,191,279
Recovery of 91A Overearnings	0	0	0
Settlement of Workers' Compensation Claims	38,500	21,000	2,000
Sub Total	19,257,440	18,659,203	18,141,260
Military Service Fund:			
Investment Income Credited to the Military Service Fund	17	17	33
Sub Total	17	17	33
Expense Fund:			
Investment Income Credited to the Expense Fund	1,934,914	1,636,031	1,475,419
Sub Total	1,934,914	1,636,031	1,475,419
Pension Reserve Fund:			
Interest Not Refunded	8,993	17,193	13,126
Miscellaneous Income	0	0	40
Excess Investment Income	35,036,789	28,611,892	(1,704,492)
Sub Total	35,045,783	28,629,085	(1,691,327)
Total Receipts, Net	$65,934,438	$58,057,488	$26,625,439

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	$715,973	$825,702	$707,902
Transfers to Other Systems	649,841	383,759	742,011
Sub Total	1,365,814	1,209,461	1,449,913
Annuity Reserve Fund:			
Annuities Paid	4,410,361	4,065,442	3,837,851
Sub Total	4,410,361	4,065,442	3,837,851
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	16,676,329	15,997,603	15,539,936
Survivorship Payments	1,698,049	1,728,112	1,729,258
Ordinary Disability Payments	232,781	235,199	235,785
Accidental Disability Payments	6,326,898	6,022,965	5,963,419
Accidental Death Payments	1,244,696	1,365,675	1,732,070
Section 101 Benefits	428,003	390,582	379,322
3 (8) (c) Reimbursements to Other Systems	623,157	535,194	485,456
Sub Total	27,229,912	26,275,332	26,065,247
Expense Fund:			
Board Member Stipend	22,125	20,750	15,000
Salaries	167,930	161,173	157,308
Legal Expenses	71,172	89,241	53,801
Medical Expenses	0	0	85
Travel Expenses	2,967	3,456	1,823
Administrative Expenses	28,943	23,551	25,675
Professional Services	0	0	705
Actuarial Services	8,900	0	11,000
Accounting Services	5,000	10,000	0
Education and Training	1,620	1,620	0
Furniture and Equipment	0	1,022	1,826
Management Fees	1,543,480	1,250,012	1,137,785
Custodial Fees	31,188	31,260	28,703
Service Contracts	31,415	23,801	22,211
Fiduciary Insurance	20,174	20,146	19,498
Sub Total	1,934,914	1,636,031	1,475,419
Total Disbursements	$34,941,002	$33,186,267	$32,828,430

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Investment Income Received From:			
Cash	$5,937	$7,934	$10,044
Equities	21,651	5,792	4,881
Pooled or Mutual Funds	7,589,110	0	6,871,542
Total Investment Income	7,616,698	13,725	6,886,467
Plus:			
Realized Gains	12,171,487	100,502	7,080,218
Unrealized Gains	18,076,489	30,992,544	23,148,588
Interest Due and Accrued - Current Year	0	0	208
Sub Total	30,247,975	31,093,046	30,229,015
Less:			
Realized Loss	0	0	(622,486)
Unrealized Loss	(4,722)	0	(35,820,665)
Interest Due and Accrued - Prior Year	0	(208)	(326)
Sub Total	(4,722)	(208)	(36,443,477)
Net Investment Income	37,859,951	31,106,564	672,004
Income Required:			
Annuity Savings Fund	111,640	113,107	186,599
Annuity Reserve Fund	776,591	745,517	714,445
Military Service Fund	17	17	33
Expense Fund	1,934,914	1,636,031	1,475,419
Total Income Required	2,823,162	2,494,671	2,376,497
Net Investment Income	37,859,951	31,106,564	672,004
Less: Total Income Required	2,823,162	2,494,671	2,376,497
Excess Income (Loss) To The Pension Reserve Fund	$35,036,789	$28,611,892	($1,704,492)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2013	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$5,846,322	2.0%
Equities	940,890	0.3%
Pooled Alternative Investment Funds	1,695,357	0.6%
Pooled Real Estate Funds	1,570,283	0.5%
PRIT Cash Fund	2,000,174	0.7%
PRIT Core Fund	274,714,573	95.8%
Grand Total	$286,767,599	100.0%

For the year ending December 31, , 2013, the rate of return for the investments of the Lowell Retirement System was 14.97%. For the five-year period ending December 31, , 2013, the rate of return for the investments of the Lowell Retirement System averaged 11.57%. For the twenty-nine year period ending December 31, , 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lowell Retirement System was 9.36%.

The composite rate of return for all retirement systems for the year ending December 31, , 2013 was 15.57%. For the five-year period ending December 31, , 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty-nine year period ending December 31, , 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Lowell Retirement System voted on January 21, 2004 to invest all of the system's assets with the PRIT fund as of March 1, 2004. Currently, more than 95% of their funds are invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Lowell Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written
Request and can be accessed via the internet at the following address:
http://www.mass.gov/perac/investsup/lowellintsup.html

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

MEMBER CONTRIBUTIONS

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

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

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

RATE OF INTEREST

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

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

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

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

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

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

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

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 $797.64 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 $797.64 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

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

COST OF LIVING

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

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

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

MEMBERSHIP

February 5, 2009: Any individual who is permanently employed twenty (20) of more hours per week by the City of Lowell or any of its departments, the Lowell Housing Authority or the Lowell Regional Transit Authority, shall become a member of the Lowell Retirement System.

CREDITABLE SERVICE

November 24, 2008: Members of the Lowell 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 Lowell 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 Lowell 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 Lowell Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 35 hours per week.

For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the Lowell Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated 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 1 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 Lowell 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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable service for 10 month employees shall be based on 1,202.5 hours being the equivalent of 1 year, whereas creditable service for 12 month employees shall be based on 1,827 hours per year.

Any member purchasing past part-time service rendered shall have said service prorated based on 35 hours per week being considered a full-week of service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time. Members may only purchase past part-time or temporary service rendered in member unit of the Lowell Retirement System.

It is the policy of the Lowell Retirement Board to accept liability pursuant to M.G.L. c. 32, § 3(8)(c) consistent with this regulation for former City of Lowell Employees whose positions were funded through the Comprehensive Employment Training Act ("CETA") and would have otherwise been eligible for membership in the Lowell Retirement System at the time said service was actually rendered.

MISCELLANEOUS

September 29, 2010: Group Classification The full time position of Wire Inspector shall be classified in Group 2 as the Inspector must be a licensed electrician and is considered to be performing the duties as such as listed in G.L. c. 32, sec. 3(2)(g).

April 24, 1987: Election Rules In the event of a recount in the election of the member-representative of the Board, the Board must receive a written request for a recount within five (5) working days after the date of notification to the candidates.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor 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:	Sheryl L. Wright		
Appointed Member:	David Keane	Until a successor is appointed	
Elected Member:	Joseph Mahoney, Chairman	Term Expires:	12/13/2017
Elected Member:	William Desrosiers	Term Expires:	8/3/2016
Appointed Member:	Michael Brennan	Term Expires:	4/25/2015

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.

Fidelity insurance is the only required policy coverage under Ch 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries as of January 1, 2013.

The actuarial liability for active members was	$226,146,569
The actuarial liability for retired and inactive members was	269,582,332
The total actuarial liability was	$495,728,901
System assets as of that date were	262,764,445
The unfunded actuarial liability was	$232,964,456
The ratio of system's assets to total actuarial liability was	53.0%
As of that date the total covered employee payroll was	$80,555,739

The normal cost for employees on that date was	8.6% of payroll
The normal cost for the employer was	5.4% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	4.50% and 5.00% for Groups 1 and 4 respectively

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	$262,764,445	$495,728,901	$232,964,456	53.0%	$80,555,739	289.2%
1/1/2011	$270,215,328	$449,425,349	$179,210,021	60.1%	$76,217,796	235.1%
1/1/2010	$248,611,238	$438,406,738	$189,795,500	56.7%	$77,383,209	245.3%

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	27	30	31	35	32	45	44	49	41	56
Ordinary Disability	2	2	0	0	1	1	1	1	1	2
Accidental Disability	7	3	4	9	5	2	8	4	9	0
Total Retirements	36	35	35	44	38	48	53	54	51	58
Total Retirees, Beneficiaries and Survivors	1,201	1,187	1,164	1,185	1,128	1,134	1,154	1,150	1,154	1,166
Total Active Members	1,828	1,850	1,879	1,932	1,704	1,636	1,793	1,797	1,810	1,712
Pension Payments										
Superannuation	$12,508,875	$12,656,982	$13,183,968	$13,222,061	$13,683,724	$14,313,059	$14,783,784	$15,539,936	$15,997,603	$16,676,329
Survivor/Beneficiary Payments	1,312,659	1,400,753	1,437,927	1,633,948	1,704,763	1,712,908	1,711,727	1,729,258	1,728,112	1,698,049
Ordinary Disability	292,045	309,702	308,850	265,578	273,098	299,702	264,695	235,785	235,199	232,781
Accidental Disability	4,763,362	4,893,085	4,845,171	5,212,802	5,395,862	5,561,846	5,823,762	5,963,419	6,022,965	6,326,898
Other	1,970,614	2,072,713	2,001,628	2,013,252	1,990,659	2,137,671	2,259,700	2,596,849	2,291,452	2,295,765
Total Payments for Year	$20,847,555	$21,333,235	$21,777,544	$22,347,641	$23,048,106	$24,025,186	$24,843,668	$26,065,247	$26,275,332	$27,229,822

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